THE FREEMAN

Ideas On Liberty

- Independent Schools at Risk
- The Central Fallacy of Public Schooling
- Subsidized Education
- *Human Action*: A 50th Anniversary Appreciation

SEPTEMBER 1999

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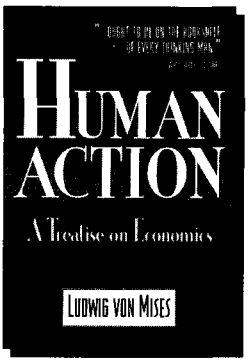
Human Action Turns 50!



What's in a name? Bettina Bien Greaves, FEE's resident scholar, explains:

The world of 1949 into which *Human Action* was launched had just survived a catastrophic war. Governments throughout the world had expanded; government regulations, controls, and inflation were everywhere. Economics was conceived of as dealing exclusively with physical things—land, labor, capital, work, production, money, and trade. By selecting *Human Action* as the title of a serious treatise on economics Ludwig von Mises showed that he was a revolutionary thinker. Calling his book *Human Action* announced to the world that economics dealt not with things as such, but with people and their relations to things.

To be sure, economics is concerned with the things people produce. But it is more basic than that. The task of economics is to explain *how* all these things come into existence through human action, that is through the actions of individuals and their interactions with one another as they act, cooperate, specialize, and trade. Shifting the center of gravity, so to speak, from *things* to *people*—as shown by Mises's selection of the title of his book—was one of his great contributions.

Mises's second great contribution was also implied in the title he chose for his treatise. Economics had to explain *how* people acted, *how* their actions sometimes made it possible for them to accomplish their ends, and *how* sometimes they were frustrated and prevented from attaining their goals. By logically examining purposive action, it was possible for Mises to explain the economic laws of price, trade, comparative advantage, competition, and so on. He could also explain even the most complex economic phenomena: monetary theory, monopoly, the trade cycle, and the like. For Mises, economics was a logical science, not an empirical, statistical, or experimental science.

Thus Mises's title, *Human Action*, sets forth in two simple words what economics is all about. It is about what people do. It explains how they use peaceful means to transform what they have into things they want, things they hope will help them accomplish their various goals in life.

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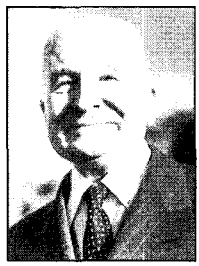

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PERSPECTIVE

Voucher Advocates, Take Heed

As if we needed more proof that with government money come regulations, the U.S. Department of Education says that colleges and universities may not use standardized admissions tests that have a "significant disparate impact" on any race, sex, or national origin. Unless a test is indispensable—a matter to be decided by the department—its use will be regarded as invidiously discriminatory, resulting in loss of federal money.

The premise is that admissions tests on which particular groups do relatively poorly—the SAT and ACT—must be culturally biased. The assertion that these exams somehow give a cultural advantage to white males of European ancestry and Asian males is bunk, but that's inconvenient to the social engineers. The tests *must* be biased.

The consequences of the prohibition are predictable. Students will be admitted to schools for which they are unqualified. Then they will flunk out. There's benevolent social policy for you. After California's state colleges and universities were forced to stop using race as a criterion for admission, it was pointed out that minority groups lost "representation" at the top schools, UCLA and Berkeley. But Thomas Sowell noticed that there are now more blacks, Mexican-Americans, and American Indians than previously at other schools, such as the University of California at Irvine. The opponents of quotas were right: instead of going to Berkeley, for which they are unqualified, minority youth who are not top students, like their white counterparts, will go to schools where they have a chance to succeed.

David Friedman, the economist and author of *Hidden Order*, once formulated Friedman's Law: government is so incompetent, it can't even give something away. Government may promise to give all students a shot at a top college, but clearly it can't make unqualified students qualified simply by forcing their admission to top schools.

Government should not be dictating who should be admitted to which schools. It shouldn't be operating schools. Period. Where

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there is government, there is control. Voucher advocates, take heed.

* * *

September is back-to-school month, a fitting time to again put government control of education on the examination table.

Private schools are better at educating children than government schools. But why? Because they're private? Marshall Fritz thinks that answer misses a big point and distorts the school-reform movement.

The rule about pipers, payers, and tunes is endlessly cited in the analysis of government policy. But it's curiously neglected in discussions about what to do about the "public schools." Jacob Huebert reminds us that it's applicable there too.

The logic of government education leads inexorably to wider intervention in the economy. The "School-to-Work" program of the Clinton administration shows that only too well. Gary Wolfram explains.

Government schools are reliable for at least one thing: teaching children the government's line on everything from taxes to war. Daniel Hager says this is nothing new.

Higher education is also increasingly a creature of public policy. Through loans and grants, government helps a lot of people go to college who otherwise wouldn't be there. Russell Madden is not so sure this is a good thing.

The battle in the Balkans is a reminder that governments, never trustworthy, are least credible when they go to war. H.L. Mencken knew this well. Unable to write about war, he found a more subtle way to comment on the state's lack of veracity and the people's inclination to believe whatever it says. Wendy McElroy explains.

This month marks the 50th anniversary of perhaps the greatest achievement in economics in the 20th century: the publication of *Human Action* by Ludwig von Mises. Richard Ebeling explains why this book and this occasion are so important.

It was Mises who pointed out that socialism would have no way to intelligently plan an economy because the abolition of the market would eliminate the tools of calculation: prices. Manual Ayau revisits the calculation debate and notes that it applies to any system other than laissez-faire capitalism.

Most of us are taught that before the Europeans intruded, American Indians lived communally with individuality submerged in the tribal soup. Amy Sturgis writes that, on the contrary, Indian life was yet another source of the freedom philosophy for the European settlers in North America.

Nothing could be more different than the way business and government account for their activities. James Bovard demonstrates that in each case, form follows function.

One of Washington's hottest ideas is to invest some of the Social Security tax revenue in the stock market. Great idea, right? Not so fast, says Deroy Murdock.

Our columnists have been busy the last month. Donald Boudreaux finds the government's method of detecting victimless "crimes" horrifying. Lawrence Reed sees nothing but bad news in the coming explosion of bogus liability suits against business. Doug Bandow revisits the U.S. bombing in Sudan. Thomas Szasz warns that speaking truth can land you in trouble. Dwight Lee examines the relationship between speculation and risk. Mark Skousen looks back at anticommunism. Russell Roberts imagines a world without the FDA. And Michael Cox and Richard Alm consider the claim that wealthy people hurt the middle class, concluding "It Just Ain't So!"

In the book section, reviewers provide the scoop on works dealing with liberty, socialism, protectionism, and FDR.

—Sheldon Richman

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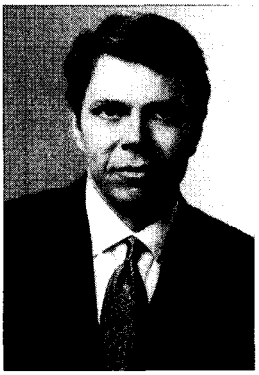
Thoughts on Freedom

by Donald J. Boudreaux



Break This Vile Addiction

Janneral Denson, who is black, was seven-months pregnant when she returned to her home in Florida after visiting Jamaica. U.S. Customs agents at the Fort Lauderdale airport greeted her with accusations that she had swallowed packets of drugs to smuggle them into the United States.

Ignoring a physician's opinion that Ms. Denson's stomach contained no prohibited substances, Customs Service agents denied her request to call her mother, spirited her away against her will to a Miami hospital, handcuffed her to a bed, and forced her to down laxatives. Careful inspection of the results of their handiwork finally persuaded them that Ms. Denson was, in fact, no drug smuggler. She was released the next day.

Eight days later, following bouts of bleeding and diarrhea, Ms. Denson required an emergency Caesarean section. Her premature son weighed only three pounds, four ounces. It is still unknown whether or not her child's health will be permanently impaired.

In May, Customs Commissioner Raymond Kelly testified before Congress about this and similar episodes. Asked about his agency's handling of Ms. Denson, Mr. Kelly denied—unbelievably—that the Customs Service uses racial profiling. But he defended the practice of strip-searches as a necessary weapon in the "war on drugs."

Reflect on this episode—reflect that government officials waylaid an innocent woman, chained her to a bed, and fed her laxatives so that they could inspect the contents of her bowels. Reflect that this woman's disgraceful experience isn't unique: innocent people are routinely subjected to such humiliating treatment. Reflect also that a high government official unabashedly tells Congress that such searches are necessary.

Freedom Requires Tolerance of Foolishness

Ms. Denson's experience shows that the war on drugs is no such thing: it is, like all wars, a war on people. But the people targeted by government drug warriors don't threaten anyone's peace and prosperity. These people merely seek to do as they please without interference from the state.

In a free society, even people who recklessly risk self-destruction should be free to do so. (Of course, taxpayers owe such abusers neither aid nor comfort.) Not only is freedom meaningless if the government assumes the paternalistic power to protect us from ourselves, but a wise people will never trust government with that power.

This wisdom motivated Ludwig von Mises to write that "A free man must be able to endure it when his fellow men act and live otherwise than he considers proper. He must free himself from the habit, just as soon as something does not please him, of calling for the police." Without this tolerance for the freedom of others, no one's freedoms are

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secure. As the government's increasingly belligerent "war" against tobacco demonstrates, powers ceded to the state so that it can behave paternalistically on one front will inevitably be abused and extended to other fronts. The reason is that no sound principle is available to constrain these powers. If the state presumes to protect me from destroying my life with heroin or marijuana, why should it refrain from protecting me from tobacco, alcohol, animal fat, or a sedentary lifestyle? Each can ruin lives and upset friends and loved ones.

Innocent People Victimized

It's important also to be aware of another heavy cost of the "drug war": government's weaponry in this war necessarily is fired scattershot. These bullets too often hit people—such as Janneral Denson—who are innocent of any drug offenses. And Customs Commissioner Kelly's defense of strip-searches is evidence that such scattershooting is inevitable as long as the government wages its "war on drugs." Here's why.

Drug traffickers don't tell government authorities about their illegal activities. And there are no victims to complain. Seldom is there a participant in a drug deal who has an interest in reporting it. This fact distinguishes drug selling (and other victimless "crimes") from true crimes such as murder, rape, kidnapping, and robbery.

Because drug dealing involves only willing participants, drug warriors *inevitably* must guess whether or not an offense is occurring and who is committing it. Such guessing, of course, involves choosing targets according to their racial, sex, and age profiles. This is why Commissioner Kelly's denial of racial profiling is unbelievable (and why Congress can end it only by ending the "drug war"). No matter how refined the technique for selecting targets, large numbers of innocent people will be detained, strip-searched, and humiliated à la Janneral Denson. After all, if Customs agents could identify drug traffickers without strip-searches, there would be no need for such searches.

Some well-meaning people argue that statistical errors are the price we must pay for law enforcement. But surely the degree to which we should tolerate such errors ought to be determined by the importance of the law-enforcement effort. If the effort itself is highly questionable, then there's no need to tolerate these errors.

The plain fact is that drug prohibition *is* highly questionable. At bottom, it is an attempt not to protect each individual's property and person from the aggression of others, but, rather, an attempt to engineer social behavior. It's an attempt at the impossible, protecting people from themselves.

"Drug war" proponents often retort that without this social-engineering effort our society would descend into a grim incivility. They insist that with drug legalization our streets would teem with disgusting junkies and our storefronts would crassly advertise the sale of deadly narcotics.

For various reasons, I dispute these predictions. But let me assume here that these are valid. So what? Would a world with more wasted junkies and crass drug merchants be as vile as what we have now? Today, our prisons are chock-full of non-violent offenders. Our inner-city streets are battle zones. Young blacks and Hispanics are suspected criminals simply because they are young blacks and Hispanics. Our courts permit government to seize and keep properties that are merely *suspected* of having been associated with drug offenses. Many ill citizens cannot get the drugs they need to cure their illnesses or to relieve their suffering. And U.S. Customs agents kidnap innocent young women and men, chain them to beds, pump laxatives down their throats, and inspect the contents of their stomachs.

These and countless other consequences of the "war on drugs" are vastly more uncivil, grim, vile, degrading, unsightly, dangerous, costly, and immoral than even the worst-case scenario of widespread drug abuse.

Let's break our unholy and repellent addiction to the "war on drugs." □

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Ideas On Liberty

The Wealthy Hurt the Middle Class?

It Just Ain't So!

Bashing the rich just ain't as easy as it used to be. With the stock market at record levels, unemployment low, and wages rising, most Americans are busy trying to become rich, not brooding over how much others earn. Most of us are better off, so why begrudge those who, through hard work or sheer luck, are making lots of money?

Well . . . Cornell University economist Robert H. Frank has found a reason. Frank, coauthor of 1995's anti-capitalist manifesto *The Winner-Take-All Society*, argues in the April 12, 1999, *New York Times* that the wealthy harm the middle class. They do so simply by spending money on such ordinary things as bigger houses, heftier cars, and nice clothes, which raises a sort of "entry barrier" to the good life for the rest of us.

Pity the unfortunate middle-class families that can't buy houses in the best school districts, whose puny sedans share the roads with 6,000-pound Lincoln Navigators, and whose children don't wear the hippest clothes. "The gifts you give, the night out at the theater, the family vacation—all are affected by the upward pull exerted by the sharply higher affluence of top earners," Frank contends.

Defending the upper classes doesn't provide the same feel-good factor as standing up for the poor and downtrodden. Yet it's dangerously wrong to malign the rich and their spending as some sort of hindrance to the rest of society. Fact is, Frank has it backwards.

We'd all be a lot poorer if not for the rich. Let us count the ways. First, the rich give generously to charity. Households making $100,000 or more donate over five times as much as middle-class families making $30,000 to $50,000—supporting hospitals, libraries, homeless shelters, research, schools and universities (including Frank's own privately endowed university, Cornell, named for the generosity of its chief benefactor, Ezra Cornell, who earned his fortune laying telegraph lines). Second, the rich start new businesses, which create jobs for the rest of us. Third, the rich deliver goods and services to society's rank and file. Indeed, we routinely fill our homes with the products the rich have invented, improved, or simply made more affordable: Colgate (toothpaste), Borden (milk), Campbell (soup), Gillette (razors), Heinz (ketchup), Maytag (appliances), Mars (candy), Dell (computers), Turner (entertainment), Mrs. Fields (cookies), Mary Kay (cosmetics), and on and on. The rich have virtually "branded" America with their gifts.

Fourth, and perhaps most important of all, the rich play a subtle but vital role in funding economic progress—not by their saving but by their *spending*! By and large, economies move forward by introducing waves of new products. New goods and services typically enter the market very expensive, with sales to only a small number of consumers—generally the wealthy. The rich are able to buy, even at what would for most of us be prohibitive prices, simply because they've got the money.

Henry Ford's first Model T hit the market at $850 in 1908, a sum that would take an average factory worker two years to earn. Not surprisingly, Ford sold only 2,500 cars that year, and critics dismissed the early automobile as a "rich man's toy." The sticker prices for today's cars may cause buyers to gag, but they actually take less of a toll on the family budget. A 1997 Ford Taurus required only a third of the work time of the first Model T.

Few entrepreneurs get rich selling only to the rich, even at extravagant prices. The big money—and the greater benefit to society—lies in bringing products within the reach of the masses. The "rich man's toy" will remain so forever unless it gets cheaper—if not in

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dollars and cents at least in the currency that really matters: hours of work.

America's free-enterprise economy routinely makes what were once luxuries for the few affordable to the masses. Videocassette recorders fell from 365 hours of work in 1972 to a mere 15 hours in 1997. A cellular telephone dropped from 456 hours in 1984 to nine hours in 1997. An IBM computer declined from 435 hours to under 60 hours (while being jazzed up with 20 times more power). So many goods and services that middle-class America takes for granted started out as niche products for the rich—electricity, telephones, washers, dryers, dishwashers, televisions, microwave ovens, answering machines, compact disc players, airline trips. Today's "jet set" includes not just society's wealthy but middle- and lower-income workers as well. Over four-fifths of Americans earning $20,000 to $40,000 annually have flown on commercial airlines. For those earning under $20,000 a year, the fraction is nearly two-thirds.

Even families at the lower end of the income distribution can count on eventually having goods and services once bought only by those with fat wallets. Indeed, 97 percent of American households in poverty have color TVs, nearly three-fourths own one or more cars, two-thirds have microwave ovens and live in air-conditioned dwellings. It wasn't a government welfare program that cut the price of these items to where they're affordable by the masses in America. It was that "unfair" capitalist system against which Frank so pugnaciously loves to rail.

More to Come

And what about the future? Will the spoils of an increasingly wealthy nation go only to a few? Again, of course not. What the wealthy have today will someday be common on middle-class incomes and below. Take high-definition television, which delivers crystal-clear images. HDTV sets are selling for $5,000 to $10,000, well beyond the means of the average household. Only the rich will buy the first sets. In time, though, we'll repeat the experience of past innovations. Prices will drop quickly, allowing the typical U.S. family to own a high-definition set within a decade or so. If history has anything to teach us on this score, it's that the capitalist booty is spreading *faster* through society today than in the past, making its way to middle- and lower-income Americans in half the time it did a century ago.

In *Capitalism, Socialism and Democracy*, Joseph Schumpeter offered a succinct capsule of the benefit of a free-market economy: "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Frank doesn't tell us how to rid society of the inequality that imposes the burden of keeping up with the rich. Those who buy into his argument are likely to advocate penalties on the wealthy—steeply progressive taxes on income or sky-high excise taxes on luxury goods. These measures might very well reduce rich people's spending. But they're not likely to do the middle or lower classes any good. Quite to the contrary, stopping the rich from spending would retard progress and reduce the general standard of living. We'd all end up worse off.

—W. Michael Cox,
Senior Vice President and Chief Economist,
Federal Reserve Bank of Dallas
Richard Alm,
Business Writer
Coauthors of *Myths of Rich and Poor*
(Basic Books)

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A Better Brand of Parent

by Marshall Fritz

After World War II, aborigines in New Guinea scraped clearings in the brush in hopes that planes would land and bring "cargo." They'd seen U.S. forces do similar scrapings, and soon thereafter, great silver birds landed and disgorged "cargo," some of which was left behind and was quite useful.

Of course, they were perpetually disappointed. No combination of width, length, slope, and decoration ever brought in a single silver bird because they didn't know the real source of "cargo." From their standpoint, however, they were doing reasonable things.

I used to push for tax-funded school vouchers. My logic was that since most times the private schools do better than the government (a.k.a. "public") schools, why not use the tax funds to allow parents a choice? Like the New Guinean who had limited understanding of "cargo," I had limited understanding of "private education."

Let's ask what is the real source of why private schools have better results overall than government schools? Is it the private ownership? Competition and the profit motive? Uniforms? Curriculum? Smaller class size? Prayers and Bible verses? Typically lower spending on teachers? Stricter discipline? Unity of worldview between parent and teacher? Charging tuition of their customers?

Of all of these, only the last gets us near the heart of the watermelon.

Unfortunately, like Cargo Cultists, most of the conservative and libertarian—and recently, "liberal"—proponents of tax-funded school vouchers have not figured out *why* private schools, on balance, outperform government schools.

So what does cause, or at least allow, private schools to have better students? Douglas Dewey, executive vice president of the Children's Scholarship Fund, put it simply: home and private schooling use a better brand of parent.

Wealth No Indicator

By the way, my one-year experience as a teen in an expensive Swiss boarding school convinced me that wealth is not an indicator of good parenting, and my experience running a private school where 71 of 72 students received financial assistance showed me that poverty is not an indicator of weak parenting.

The Reverend E. Ray Moore, founder of Exodus 2000, and I worked up a thought experiment to help explain Dewey's Dictum. Here it is:

1. Come up with five or more indicators of "good parenting." Our list includes: (1) getting married before you have children;

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(2) staying married; (3) giving children authoritative discipline; (4) earning a living, as opposed to living on welfare; (5) taking virtues seriously and working to transfer them to your children.

Imagine a distribution of American parents measured on *your* indicators of good parenting. I suspect your estimates will probably look something like Ray's and mine. We think just a few parents are excellent, the majority are merely good or weak, and more are bad parents than are excellent. Chart 1 attempts to picture this as a histogram.

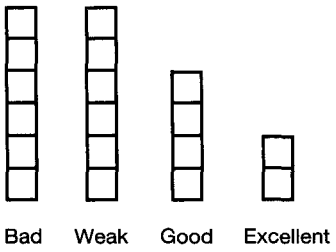

Chart 1: Moore/Fritz Estimate of Distribution of 1990s American Parents by Quality Level

2. Now invent five measurements of "good children." Our list included: (1) lack of arrests for drug use, theft, and assault; (2) diligently prepare themselves for adult status, as measured by getting good grades, staying in school, and getting a part-time job; (3) care about the world around them, as measured by how much of their income and time they volunteer to helping their fellow man compared to how much they spend in self-indulgent activities; (4) are happy and cheerful; (5) attend the church or temple of their or their parents' choice and make sincere efforts to understand and live by its teachings.

Next, estimate the percentage of children from each of the four quality levels of parenting that you think would measure up as "good or excellent children." In other words, how many children of the bad parents are excellent children, how many of the weak parents, and so on. You can see our estimates in Chart 2.

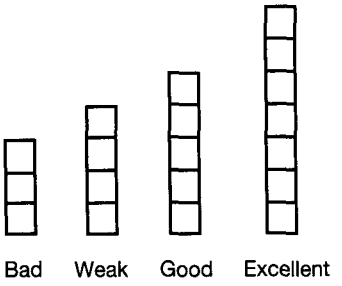

Chart 2: Moore/Fritz Estimate of Distribution of Good or Excellent Children from Each Group (each segment represents 5%)

3. Finally, estimate the percentage of children in private schools that come from the four quality levels of parenting. If your guess is like ours, the vast majority come from the best parents, and practically none from the worst parents. See Chart 3.

Chart 3: Moore/Fritz Estimate of Distribution of Quality Levels of Families with Children in Private Schools

This exercise illustrates Dewey's Dictum that, by and large, private-school children come from better parents and are already better quality children. In other words, the main source of quality in private schooling is that they use better raw material. It's not what's *in* the school as much as what goes *into* the school.

The obvious next question is, how do the private schools get the better pupils? Let's compare the school situation to Chinese restaurants.

Chinese restaurants take measures to filter out diners who want Mexican or other non-Chinese food: In designing their restaurant sign, they usually use a Chinese-sounding

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name. Sometimes they employ some Chinese characters and they almost always blatantly use the words "Chinese Food." Because of this filtering out of most diners, rarely do customers complain about the lack of burritos on the menu.

School Filter

Back to our question: from the millions of parents who might like private schools, how do the private schoolmasters find the better ones and filter out the poorer ones? Can they use the Chinese restaurant approach and do it with a sign such as "Polite Children Lutheran School"?

We know better. We know the answer. They put certain demands on parents. Most of these schools expect payment in the form of tuition. Some allow parents and older children to work off part of the tuition. Some require parental involvement. For instance, the Hyde School in Bath, Maine, requires parents to attend several full weekend classes the first year that their child is in the school.

I know one New Yorker whose Jamaican doorman works two jobs in order to keep his children in a tuition-charging religious school. He sacrifices* his leisure time because his children's education is more important to him.

When parents sacrifice their time and money to put their children into private schools, the children see that education is important and they tend to get with the program.

Now, we're getting to the subtle-but-important facts of life about vouchers: even if there were never any strings attached, they would destroy private education in three ways:

1. For today's parents who are sacrificing to send their children to private schools, that sacrifice would be reduced or even eliminated when government funding is available. Their children give up the paper route before breakfast and dad quits his second part-time job. They also stop cleaning the school on Saturday. And when their parents no longer live out their concern for education, the students' eagerness for school is diminished.

2. The schoolmasters can no longer differentiate between better and weaker parents. They must, in effect, take down the sign, "Tuition-paying parents only." Children raised without a spirit of respect for others and their property will have equal access to their school. Children who are thugs and thieves, instead of being the rare exception, will form a quorum, just as they do today in many government schools. (The much-touted "Milwaukee system" even requires schools to accept all children and if oversubscribed, to choose by lottery.)

3. Worst of all, government subsidy transforms good parents into poor parents. When today's poor, even working two jobs, can't afford to put all their children into private schools, they must depend on charity. They go to their pastor or a private scholarship program, which funnels money to them that some other person sacrificed to give. The advantage of charity over government funds is that the recipient keeps a sense of proportion, even gratefulness, when receiving volunteered money. With welfare, however, the recipient concludes he has a "right" to the money and often gets angry because he believes he deserves more. The subsidy transforms him into an angry parent. And when government funding ruins the attitude of the parent, the parent ruins the attitude of the child.

Do I speak from experience? I've run a school, and I had to close it because I accepted way too many children who were morally and emotionally messed up by their parents. In my written analysis of lessons learned at Pioneer Christian Academy, I confessed: "I apologize to all public school people who I accused of overstating the case of 'children unprepared to learn.'"

Destructive Vouchers

Tax-financed vouchers will destroy the very private education that their proponents so

*sac´ ri . fice: Surrender of some desirable thing in behalf of a higher object (*Webster's New Collegiate*, 1949).

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much desire. The goose that is laying the golden eggs is the combination of voluntary parental sacrifice and the ability of schools to locate those parents. Converting this "sacrifice system" to a "welfare system" with school stamps, a.k.a. vouchers, will kill this goose. The aborigines of New Guinea learned about cargo. I learned about vouchers. So must we all.

If vouchers aren't a solution to the school mess, what is? If government funding of parental duties weakens parents, would removal of government funding enable them to regain parenting strength? I think so. Parents who increase their sacrifice for their children subsequently work to become better parents. The evidence for this is particularly clear if you listen to a few dozen homeschooling parents describe the changes in their families once they began homeschooling. Fathers in particular "turn their hearts toward their children."

The key to good education is good parenting, and the key to good parenting is for parents to reassume the burden of decision-making and financing their children's education. The separation of school and state is a necessary step to improve parenting in America. □

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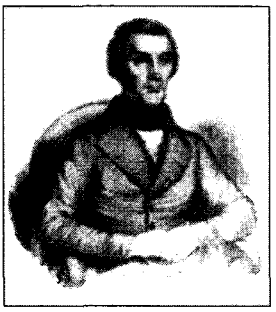

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THE FREEMAN
Ideas On Liberty

Independent Schools at Risk

by Jacob Huebert

As discontentment with government schools grows, tax-funded "school choice" has emerged as the leading reform proposal. School-choice programs typically include a voucher plan, although some would make direct payments from the government to private schools. Those proposals are intended to give parents new school alternatives, which are sorely needed, particularly in inner cities. Yet at the same time, private schools, by accepting the money, would become much like the public schools against which they are supposed to compete. Historical examples of government-sponsored school choice, here and in other nations, show that when private schools sign on to such programs, they often sign away their independence.

What has happened in American higher education provides strong evidence that accepting government money leads to a loss of independence. In the 1950s and 1960s, both public and private colleges and universities began accepting direct aid from the federal government.[1] Nevertheless, it caused alarm among many college presidents, prompting a commission consisting of the presidents of Johns Hopkins University, Union College, the California Institute of Technology, the University of Missouri, Stanford University, and Brown University; the former president of Columbia University; and the provost of Harvard University to declare:

> We are convinced that it would be fatal were federal support to be substantially expanded. Power means control. Diversity disappears, as control emerges. Under control, our hundreds of universities and colleges would follow the order of one central institution and the freedom of higher education would be lost.[2]

Their concerns would prove to be legitimate. As schools quickly became increasingly dependent on government money, the feds began to exert an ever-increasing amount of control over the recipient institutions.

Today, the dependence of schools on federal funds has become such that formerly independent schools are willing to do nearly anything to appease the government in order to retain their funding. William McGill, president of Columbia University in the 1970s, admitted that when the federal government threatened to take away his school's funding, which constituted half of its budget, he was ready to "promise almost anything" in order to get the government off Columbia's back.[3] The government was threatening the university because of concerns about minority representation in its student body and faculty. This was despite the fact that Columbia was already "trying every means" to increase minority representation.[4] It would thus appear that the government was not interested in Columbia's attitude toward minorities. It was interested in control.

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The Power to Define

As federal control over public and private education expanded, so did the very definition of a "recipient institution." In 1975, the Department of Health, Education, and Welfare (HEW) sent a letter to all colleges and universities asking them to sign an "assurance of compliance" that would guarantee they were complying with federal regulations under Title IX of the Educational Amendments of 1972. Although Title IX was only to apply to programs and activities directly receiving aid, HEW now said the regulations could be applied to an entire institution if even one part received federal aid.[5]

The majority of schools simply signed the form and returned it. Most of the scant few that saw the form as a threat to their independence did nothing at all with it and hoped no one would notice. One school, Hillsdale College, wrote to HEW refusing to sign because of the control that would follow.[6]

Eventually, after another school, Grove City College, became involved, the matter was litigated and ultimately appealed to the Supreme Court of the United States in *Grove City College v. Bell* (1984). In that case, the court ruled that a school could be considered a recipient institution if *any* student on campus received an education loan or a grant, and that funds could be withheld from school programs that were found to be not compliant with regulations.[7]

In another blow to private independent schools, Congress passed (over President Ronald Reagan's veto) the Civil Rights Restoration Act of 1987, which made it explicit that any school (including any elementary or secondary school) that enrolls students who receive federal aid is subject to regulation by the federal government.[8] Hillsdale and Grove City were presented with a choice: they could accept government control or they could accept only students who received no government aid. Although it would give them a disadvantage in the market, both schools chose the latter.

Advocates of voucher programs often assume that any school could follow this path and choose not to participate, nullifying concerns about independence. Joseph L. Bast and David Harmer insist: "Participation in voucher plans is never mandatory: those who manage private schools are free to remain outside the program if they believe the [inevitable] accompanying regulations are too burdensome."[9]

What Bast and Harmer fail to account for is that schools which refuse vouchers will be at an enormous disadvantage with those that are less concerned about independence, eager to accept vouchers, and happy to offer a "free" education to any student.

Replacing Government Money

Hillsdale president George Roche has been forced to deal with loss of federal student-aid funding since the *Grove City College* decision and the passage of the Civil Rights Restoration Act. In 1992, the school had to raise $1.4 million to replace the money students would otherwise have received through federal grants and loans. This figure is likely to rise because the government has the unfair advantage of being able to supply as much money as it wants to students who choose to accept its aid and who, accordingly, go to other schools. As Roche notes, "It's impossible to make money as fast as a counterfeiter."[10]

Hillsdale and Grove City have managed to get by without government money, but they are schools with long histories and many generous alumni benefactors. Under "school choice" for primary and secondary education, a new school wishing to remain independent would face a far greater disadvantage.

The implications for primary and secondary education under voucher programs are clear. By the logic of *Grove City College* and the Civil Rights Restoration Act, any school that accepts a voucher would also almost certainly have to accept what Sheldon Richman calls "a raft of government standards that before long would make the private schools virtually indistinguishable from the public schools."[11] Former voucher advocate David Barulich changed his views on the issue when he realized that since, under a "school choice" program, the government would inevitably define the sort of organization that would be eligible to accept vouchers, it would essential-

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ly turn private schools into clones of public schools.[12]

Even the cases in which the federal government uses its power over private schools to prevent discrimination (ostensibly the purpose of Title IX and the Civil Rights Restoration Act) could seriously affect a school's ability to maintain its independence and standards, as anti-discrimination statutes have recently been extended to protect "rights" of "new" minorities, that is, claims from special-interest groups.[13]

Further, the U.S. Task Force on Assessing the National Goals Relating to Post-Secondary Education has called for "uniform standards" for all colleges—standards that go well beyond matters of putative civil rights.[14] There is no question that these developments could undermine the goals and independence of private schools.

Experience Abroad

Government money has been used for "private" education in certain other nations for some time, with predictable results. In France and Germany, for example, differences between Catholic schools and ordinary government schools have essentially disappeared since government funding of private religious education began. In these and other European countries, government-enforced uniformity has resulted in the weakening or even the elimination of religious teaching in private religious schools.[15] When Australia attempted a government-funded "privatization," the results were similar. Economist Estelle James of the World Bank notes that with the program came "increas[ed] regulation and centralization of decisions and the loss of private school autonomy."[16]

James also did an extensive study of the government-funded school choice program in the Netherlands. She notes that with the high level of government funding for private schools has come an amount of regulation that is virtually directly proportionate. Not only do the regulations for recipient schools specify required numbers of teachers, salaries, and conditions of work, they also limit schools' authority to fire teachers and never allow schools to fire teachers for lack of competence.[17] Further, all schools are forced to follow a "uniform curriculum" prescribed by the government.[18]

The record of American higher education and of government-funded private schooling around the world reveals that government money inevitably leads to government control. While free choice is a worthy cause for those who support liberty and quality education, it may reasonably be concluded from all available evidence that voucher programs and other government subsidies to private schools will lead to increased bureaucracy, increased controls over the lives of individuals, and quite possibly the end of independent private schooling in America. If greater educational freedom and diversity are desired, government money and control are not the means to achieve it. □

1. George Roche, *The Fall of the Ivory Tower* (Washington, D.C.: Regnery Publishing, Inc., 1994), p. 99.
2. Ibid., p. 100.
3. Ibid., p. 105.
4. Ibid.
5. Ibid., p. 112.
6. George Roche, *One by One* (Hillsdale, Mich.: Hillsdale College Press, 1990), p. 4.
7. Ibid., p. 5.
8. Douglas D. Dewey, "Separating School and State: A Prudential Analysis of Tax-Funded Vouchers," *Vouchers and Educational Freedom: A Debate.* Cato Policy Analysis No. 269, March 12, 1997. See www.cato.org/pubs/pas/pa-269.html.
9. Joseph L. Bast and David Harmer, "The Libertarian Case for Vouchers and Some Observations on the Anti-Voucher Separationists" in *Vouchers and Educational Freedom.*
10. *The Fall of the Ivory Tower*, p. 115.
11. Sheldon Richman, *Separating School and State: How to Liberate America's Families* (Fairfax, Va.: The Future of Freedom Foundation, 1994), p. 83.
12. Dewey.
13. *The Fall of the Ivory Tower*, p. 128.
14. Ibid., p. 129.
15. Charles L. Glenn, *Choice in Schools in Six Nations* (Washington, D.C.: U.S. Department of Education, 1989), pp. 41–42, 115, 189; cited in Dewey, p. 37.
16. Estelle James, "Private Education and Redistributive Subsidies in Australia" in *Privatization and Its Alternatives*, W. Gormley, ed. (Madison: University of Wisconsin Press, 1990), p. 108, cited in Dewey, p. 38.
17. Estelle James, "Public Subsidies for Private and Public Education: The Dutch Case" in *Private Education: Studies in Choice and Public Policy* (New York: Oxford University Press, 1986), p. 122.
18. Ibid., p. 123.

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THE FREEMAN
Ideas On Liberty

School-to-Work: A Large Step Down the Road to Serfdom

by Gary Wolfram

It's been five years since Congress enacted the "School-to-Work Opportunities Act." School-to-Work is a federal program that ostensibly is designed to improve the work skills of children in the nation's government schools. The theory is that our education system should prepare children for jobs in today's society. This is funded by the billions of dollars the federal government is willing to provide states that adopt approved plans and programs for channeling students into occupations.

By inducing individual states to participate, the federal government can establish a "national framework" for "comprehensive reform." To date all 50 states, Puerto Rico, and the District of Columbia have received state development grants, and 43 states have received implementation grants. In addition, 61 communities have received local partnership grants.

The heart of this reform is to require each K–12 student to have comprehensive career guidance by no later than the seventh grade and to adopt a "career major" within an occupation area. The choice of occupation areas is to be made by a local planning board based on government economic projections of "need." On graduation, students receive "certificates of mastery" that are linked to national skill standards being developed by the federal government's National Skill Standards Board.

The certificate of mastery is designed to create a system of certification for all occupations. Once every state and every student are involved in School-to-Work, the federal government can, through its taxation and regulatory power, "encourage" businesses to require that new hires have a certificate of mastery.[1]

The Federal Role in Education

As Nobel laureate F. A. Hayek made clear in his 1960 book, *The Constitution of Liberty*, the federal Constitution was meant to provide a written foundation to protect the individual from his government. As such, the Constitution provides the federal government with explicit powers and through the Tenth Amendment clearly states that "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." One would search in vain through our Constitution for a statement that the federal government has been delegated power over the education of our children. That is why, traditionally, government control of education has been at the state and local levels.

For a number of reasons, the founding fathers were correct in not assigning the federal government a role in education. The first can be classified under what Hayek, in his final book, called "the fatal conceit."[2] It is impossible for a central planner to know what is the appropriate education for the millions of individual children who are in school every day. Only parents can know what is appropri-

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ate for their child. To think that a federal bureaucracy in Washington, D.C., can better determine even a portion of what is to be taught in schools from Miami, Florida, to Anchorage, Alaska, is at best misguided and at worst a threat to our liberty.

In the context of the School-to-Work Act one might argue that the federal government is not mandating a particular program. Indeed, states may choose not to participate at all, though naturally they find the money irresistible. But this is too superficial a view. Most state governments succumb to what I call the buffalo strategy. If I don't shoot the buffalo someone else will. If Kansas does not adopt an approved plan, it will not receive the taxpayers' money and some other state will. The strategy may be rational from the perspective of a state government, but there are costs. In the short run, educational priorities will be altered to fit the terms of the federal program. In the long run, there will be a further loosening of our constitutional moorings and another step toward government planning of the economy.

The statute requires that each state's plan be approved by the federal government for the state to receive the money. Thus, it is likely that the federal bureaucrats who approve the state plan may influence what the state program will be. Indeed, the statute itself has some requirements to indicate what the plans should look like. For example, students are to be counseled in their career plans by not later than the seventh grade in an attempt to get them to identify their career majors (Section 102), and students are to be encouraged to enter nontraditional careers (Section 4).

One cannot read the Act without getting a clear indication that the Congress is attempting to redirect education into a worker-training role and away from a classical liberal-arts curriculum. Whether this is good public policy is not the question at this point; the issue is whether the federal government was intended under the Constitution to engage in it.

As Frederic Bastiat wrote some 150 years ago in *The Law*, when government becomes involved in education, people begin to lose a sense of whose responsibility it is to educate their children.[3] Education becomes thought of as the responsibility of government; all education issues will become political issues; and people will blame the government for its inevitable failure to do what it claims it can do. Today we prove that Bastiat was right as we engage in a political discussion about whether a primary mission of schools should be specific job training, as opposed to providing general knowledge such as reading, writing, history, mathematics, art, music, geography, and so on.

Are schools likely to be any more efficient at job training than they are at basic classical education? If not, the short-run response may be to call for more resources to go into education, but the long-run response will be further complaints and dissatisfaction with government's actions.

The Political Economy of School-to-Work

Public-choice theorists have recognized that all state action is human action, again something that Bastiat made clear a century and a half ago. This means that the political process is determined by the incentives created within the system. Federalist No. 10 warned us that factions or special interests will attempt to use the political system to direct resources to themselves.[4]

School-to-Work is a case where special-interest groups, in particular business, will have every incentive to influence the curriculum of the schools. Once we have opened the door wide to the business community to help determine what job skills will be taught in the schools, each employer will attempt to get the specific training used in his particular industry into the curriculum. Employers will also assist in determining which "career majors" the seventh-grade students will be steered into. It is only rational that each employer should seek to have students directed into his industry in order to increase the supply of skilled labor. This reduces job-training costs and wages.

The issue is not whether this is illegal or immoral. The issue is that the system is

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designed for this to happen and thus it is likely to happen. This leads us to question whether dollars are likely to be spent better by School-to-Work bureaucrats than by taxpayers. The answer is no.

Markets versus Central Planning

In *Socialism*, his seminal work on the failure of central planning, and in later works, Ludwig von Mises showed conclusively that government planners cannot succeed because information indispensable to efficient production is always decentralized and beyond anyone's capacity to gather.[5] Hayek followed Mises in analyzing how the price system allows the market process to solve this problem and make the most efficient use of resources. He warned against attempting to plan a society rather than relying on markets.

The collapse of socialist Europe proved Mises and Hayek to be correct. Yet the lesson has not been fully learned in the United States. The School-to-Work program is embedded in the paradigm of central planning. It is based on the idea that businessmen and educators can get together and plan a curriculum that will teach specific skills for specific industries and assist 12- or 13-year-olds in finding their careers. This is the antithesis of the market process and cannot possibly result in an efficient use of resources.

Markets are dynamic. Those who were in seventh grade ten years ago and are now graduating from college could not have known the many new jobs that would be created. Whole industries have arisen, and some have collapsed. The Bill Gates of the future will not be represented at the committee determining the right career for the right child. To think that today's educators and businessmen are capable of advising young students on career choices is to engage in the fatal conceit.

Schools should provide a strong education in basic academic skills. A person well grounded in these can easily be taught the specific skills needed for a particular job. High job-training costs, often used to rationalize School-to-Work, can easily be lowered if graduates are taught to read, write, and think well. We already ask too much of schools in a vain attempt to replace the family. To burden them with job training is asking more than can be delivered.

There are hundreds of proprietary schools in the United States that can provide job training for students, and they have every reason to respond to changes in market circumstances. No one can realistically believe that the political process of "cooperation" between schools and business can result in anything other than a political outcome.

Finally, we must also beware of "scientific results" showing that students who go through School-to-Work programs get jobs at faster rates than students who don't. This is a case of what Bastiat called the seen and the unseen. We can see the positive results from an expenditure by the government, but we cannot see what would have been done with the money had it remained in private hands. □

1. The National Center on Education and the Economy has been the driving force behind the School-to-Work program. It is committed to developing an integrated system of education, job training, and employment. For further discussion see Diane Fessler, "School-to-Work: It's the Law," at www.fessler.com.

2. F.A. Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: University of Chicago Press, 1988).

3. *The Law* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1998 [1950 translation of 1848 French version]).

4. For a survey of the economists' analyses of this phenomena under the title "rent seeking," see Robert Tollison, "Rent Seeking: A Survey," *Kylos*, 1982, pp. 575–602.

5. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Fund, 1981 [1922]).

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Taxation by Litigation Threatens Every American Business

Abusing the legal system for political, social, or greedy ends is fast becoming America's favorite pastime. Billions of dollars, millions of jobs, and the survival of legitimate businesses are at stake. And if the Clinton administration's latest lawsuit fantasy proceeds, Katie bar the door: government itself will become the biggest abuser of them all—with the potential to threaten dozens of industries from fast food to automobiles.

Lawsuit abuse will end up costing the Dow Corning Corporation billions of dollars. Even though no reputable scientific study to this day has ever shown a connection between the company's breast implants and disease, the litigation lottery forced Dow Corning into bankruptcy in 1995. Science took a back seat to the greed of trial lawyers and plaintiffs looking for deep pockets.

Gun manufacturers are now facing a similar plight, as a growing number of cities file suit against them for making a product that kills. Never mind that just about any product can kill if that's the intent of its user. City officials claim they are simply trying to recover public health and safety expenses that are associated with gun crimes. According to the National Center for Policy Analysis, the costs to society of firearms violence are *one-fifth* the savings that accrue from the crimes that firearms ownership prevents. But there's no guarantee that gun makers won't have to cough up millions anyway.

Now comes the Clinton administration to raise the stakes in the national Blame Game. The Justice Department is preparing a lawsuit against tobacco companies for the stated purpose of recovering Medicare costs attributable to smoking. Picking on an unpopular industry with a charge that sounds superficially defensible may be politically shrewd, but the evidence suggests this is nothing more than a grab for cash with sweeping implications for every American business.

It's no secret that the Clinton administration would like to put the tobacco industry out of business or rake in lots of revenue trying. Its efforts to impose massive new taxes on cigarettes, however, went up in bipartisan smoke last year in Congress. It was also rebuffed in its efforts to have the Food and Drug Administration (FDA) regulate tobacco products as medical devices. The administration apparently sees a new lawsuit, buttressed by dubious and far-reaching legal theories, as a way to do an end run around Congress, even though Attorney General Janet Reno has testified that "the federal government does not have an independent cause of action" to sue tobacco firms for health-care cost reimbursement.

This is the same government, incidentally, that for decades until 1974 gave free cigarettes to the military—even after ordering warning labels on cigarette packages in 1966. The Clinton administration that is contemplating a new lawsuit against tobacco compa-

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nies is the same administration that has denied veterans' requests for coverage of diseases thought to be related to smoking. Indeed, President Clinton's secretary for veterans affairs called it a "borderline absurdity" to compensate veterans for their "personal choice to engage in conduct damaging to their health."

Writing in the *Wall Street Journal* (February 8, 1999), constitutional scholar Robert A. Levy of the Cato Institute explained the attenuated legal notions on which a suit against tobacco firms for health care expenses would have to rest:

> In effect, Justice will assert that it can recover merely because smoking injured someone protected by Medicare—even though that person, having assumed the risk, would have no right to recover on his own. The same tobacco company selling the same cigarettes to the same smoker and resulting in the same injury will be liable only if the smoker is a Medicare recipient and the government is the plaintiff. Liability thus hinges on the injured party's Medicare status, a happenstance utterly unrelated to any misbehavior by the industry.

What makes the threat of a new lawsuit even more ludicrous is that after factoring in health-care costs, the federal government actually *makes money* on every pack of cigarettes sold. That's because the heavy excise taxes smokers pay add up to more than the health-care costs associated with their smoking. According to the FDA, "the most detailed research on the issue of whether smokers pay their own way is the 1991 study by Manning, et al., who concluded that 'there is no net externality, because the sum of all smoking-related externalities is probably less than the added payments imposed on smokers through current Federal and State excise taxes.'"

Moreover, because they don't live as long as nonsmokers, those who smoke contribute far more in Social Security taxes than they get back in benefits. The Congressional Research Service concluded last year that "all in all, smoking has apparently brought financial gain to both the federal and state governments."

Clearly, the Clinton administration seeks to further corrupt the legal system to get the cash it has not been able to secure through higher taxes via the democratic process. If it succeeds in its vendetta against tobacco, who might be next? Michael Baroody, senior vice president of the National Association of Manufacturers, rightly fears that this action "would set a precedent for federal litigation against industries an administration—this or any other—might not politically favor."

The Surgeon General and the FDA warn against high-fat diets; should the Justice Department sue the fast-food industry, bakeries, or the makers of Ben & Jerry's Ice Cream? Why not sue GM, Ford, and Daimler-Chrysler to recover the medical costs caused by auto accidents? Cholesterol has been implicated in heart attacks and too much alcohol causes cirrhosis of the liver; perhaps cattle ranchers should be sued for selling artery-clogging beef and winemakers should be hauled into court and made to pay the hospital bills for every wino in America. And how about the makers of fertilizer: shouldn't they be forced to provide compensation for any medical costs incurred in the 1995 Oklahoma City bombing?

Whether the subject is breast implants, guns, tobacco, or any other product, abusing the legal system is not a harmless lark. It is an exercise in intellectual corruption, an attack on the democratic process, and a manifestation of greed run amok that every consumer and businessman in America ignore at their peril. □

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THE FREEMAN
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The Central Fallacy of Public Schooling

by Daniel Hager

When World War II ended, Congress authorized a tax cut to take effect January 1, 1946. *Young America,* a publication distributed through public schools, ran an article in its December 13, 1945, issue discussing the measure and presenting a brief history of American taxation. The article concluded with a section titled "Then & Now: Taxes Serve Us."

"One hundred years ago," the writer stated, "our government helped the citizens by maintaining order. It did little else. Its expenses were low, and so taxes were low." He then quoted Benjamin Franklin's observation in *Poor Richard's Almanack* in 1758: "It would be a hard government that should tax its people one-tenth part of their income." The *Young America* writer continued, "In 1940, our Federal, State and local governments taxed us *one-fifth* of our incomes. But Franklin could not have guessed the tremendous growth of this country." (Emphasis in original.)

The writer then offered justification for such high taxes: "As students, our young citizens are given school buildings. Our government does hundreds of things for us in our everyday life." He finished with a quotation from Supreme Court Justice Oliver Wendell Holmes, Jr.: "I like to pay taxes. It is purchasing civilization."

The article vividly illustrates the overriding intent of public schooling, which has always been indoctrination of the young.

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Who's in Charge?

Indoctrination itself is not illegitimate. In fact, it is an intrinsic part of child rearing. Out of love and concern, parents explicitly or implicitly formulate desired outcomes for the young lives they have created. Parents generally hope their children will adhere to their own traditions and belief systems, which they attempt to inculcate.

The question parents must face is, "Who will do the indoctrinating?" Schooling is an adjunct to child rearing. The schooling options available force parents to make decisions regarding the level of autonomy they wish to exercise. They retain the greatest control over their children's developing beliefs by schooling them at home. An alternative is to enroll their children in an institution where they are certain the indoctrination conforms to their own values, such as a religious school.

When parents send a child to a tax-funded school, they sacrifice their autonomy to alien interests. The state has goals of its own that are distinct from those of parents. Parents are able to economize by availing themselves of a "free" school, but the bargain is Faustian. The child is subjected to indoctrination outside parental control. The price of tax-funded schooling is that parents give up their children to become instruments of the state.

Under totalitarian regimes, the subjugation of parental belief systems to those of the state is blatant. Schoolchildren are propagandized into the doctrines of the

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leadership, their thoughts molded to the state's purposes.

But even under a "democratic" regime the state operates manipulatively for its own ends. Those who govern generally like to continue governing. Their governance is more easily maintained when the governed are passive and docile. The state propaganda machine must convince the citizenry of government's benevolence. Schoolchildren are taught, as in the *Young America* article, that government "gives" them things and "does" things for them.

Government schools inevitably become battlegrounds for control by ideological adversaries. The nature of the indoctrination changes as advocates of particular ideologies wax and wane in their power to influence curricula. The constant is that parents have relinquished direct control over what their children are taught to believe.

This battle has been going on ever since the modern public school emerged in the first half of the 1800s. Education historian Joel Spring stated, "In the Western world of the nineteenth century, various political and economic groups believed that government-operated schools could be a mechanism for assuring the distribution of their particular ideology to the population. In this sense, public schools were the first mass medium designed to reach an entire generation."[1]

Early Theocracy

Indoctrination through compulsory schooling originated early in the nation's history. Massachusetts Bay Colony was organized unabashedly as a theocratic government that required citizens to adhere to stipulated religious beliefs. In 1642 the Massachusetts General Court passed an act requiring compulsory education of children and giving town selectmen the authority to maintain orthodox teaching and punish recalcitrant parents. The civil government was in charge of the schools, which were supported by taxes. R. Freeman Butts and Lawrence A. Cremin wrote, "Here was the principle that government had authority to control schools, and it was well enunciated in the New England colonies early in their histories. It was a principle of great importance, for it set a precedent in American life establishing the authority of the state to promote education as a public and civil matter."[2]

However, private schoolmasters were in business in Boston by the mid-1660s, according to records examined by Robert Francis Seybolt. The number of private teachers gradually enlarged to the end of the seventeenth century, partly in response to market demand. He wrote, "The two public schools [in Boston] . . . admitted only boys who were at least seven years of age and had learned to read. Girls as well as boys were welcome, at any age, in the private schools."[3]

In the 1700s in New England, Butts and Cremin noted, private schools flourished as "colonial legislatures showed a slackening of effort to require compulsory education and gave greater freedom to private groups to educate children in schools of their own preference."[4]

A wide variety of curricula was offered in eighteenth-century Boston private schools, Seybolt found. "Unhampered by the control of the town meeting, and little influenced by traditional modes of procedure, these institutions were free to grow with the town. This they did as conditions suggested it. The result was a remarkably comprehensive program of instruction which appears to have met every contemporary educational need."[5]

Seybolt articulated the benefits of private-sector schooling. "The private schools were free to originate, and to adapt their courses of instruction to the interests of the students. The masters sought always to keep strictly abreast of the time, for their livelihood depended on the success with which they met these needs. No such freedom or incentive was offered the masters of the public schools."[6]

This principle was overwhelmed by the swelling tide of nationalism of the early 1800s. Proponents of common schools, or tax-funded elementary schools requiring compulsory attendance, viewed them as crucial vehicles for indoctrinating young people in Americanism. The movement intensified as immigration increased from continental European cultures that lacked democratic tradi-

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tions. Benjamin Labaree, president of Middlebury College in Vermont, expressed popular fears in an 1849 lecture before the American Institute of Instruction. He asked, "Shall these adopted citizens become a part of the body politic, and firm supporters of liberal institutions, or will they prove to our republic what the Goths and Huns were to the Roman Empire?"[7]

Wartime Indoctrination

Chauvinistic indoctrination becomes a useful tool of the state in wartime, as when President Woodrow Wilson created the Committee on Public Information (CPI) to build support for American participation in World War I and to blunt opposition by constituencies with European roots. The nation's high schools were prime propaganda targets and received hundreds of thousands of copies of a CPI-produced pamphlet designed to stir anti-German sentiment. "Germany does not really wage war," the pamphlet stated. "She assassinates, massacres, poisons, tortures, intrigues; she commits every crime in the calendar, such as arson, pillage, murder, and rape."[8] Joel Spring commented, "From the standpoint of the public schools, [the CPI] was the first major attempt to bring the goals of locally controlled schools into line with the policy objectives of the federal government."[9]

An influential CPI official was William Bagley, who "believed that local control of educational policy was a major hindrance in adapting the public schools to the needs of the United States as a world leader. . . . The combination of the war and the new national spirit opened the door for the federal government to exercise leadership in a national educational policy. Included in Bagley's proposals was a call for federal financing of the public school system."[10]

During the 1920s, local schools suffered for being dominated by the wrong kinds of people on their boards, according to public-school champion George S. Counts. His research showed that "for the most part, [board members] are drawn from the more favored economic and social classes. They are also persons who have enjoyed unusual educational advantages. . . . No longer is the ordinary American community homogeneous as regards interests, philosophy, and ideals. Hence the need of guarding the integrity of the various minority groups."[11] The laboring classes were expressing "lack of confidence in the public school on the ground that it is under the control of the great capitalistic and employing interests."[12] As the high school of that era evolved and expanded in curricula, he noted, "the institution offers itself as a powerful agency of propaganda to any group able to secure dominion over it."[13]

Since then the dominion of the federal government over schooling has grown to a scope of which Bagley would approve. Its power, abetted by the activism that the collectivist Counts advocated for teacher organizations, enables it to be the leading propagandist in educational policy.

But the nationalist Bagley would be disappointed in the ideology that has accompanied the federal growth. The current pre-eminent public-school propaganda indoctrinates students in an anti-nationalistic collectivist environmentalism. Meanwhile, Counts's "capitalistic and employing interests" attempt to re-establish influence because so many products of public schools need remediation before they can become employable.

Proponents of public schooling argue against the complete privatization of schooling on the grounds that the poor would not be able to afford tuition and that some parents would not provide schooling for their children, leaving them "uneducated." However, the rampant levels of ignorance, subliteracy, and hostility to learning that characterize tax-funded schools argue that the present system is itself not serving the best interests of students.

Instead it is clear whose interests are being advanced. Fifty-four years ago the writer in *Young America* was moved to emphasize in italics that era's apparently high tax rates. Since then the average tax burden has doubled. Yet, as one of my acquaintances has commented, "Americans today are in a stupor." In other words, the tax-supported school system has triumphed. Americans are behaving exactly the way those who govern desire them to behave.

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Children who are turned over to the state become molded by the state. Most parents cannot conceive of a totally privatized alternative because they themselves have been indoctrinated by public schooling to believe in its alleged necessity. However, it is fallacious for parents to think that children can escape government schooling without having their traditions and beliefs subverted. "Free" schooling is seductively attractive in the short run, but it has long-term costs. The dismantling of tax-funded schooling will not be accomplished until more and more parents say, "My child does not belong to the state." □

1. Joel Spring, *Images of American Life: A History of Ideological Management in Schools, Movies, Radio, and Television* (Albany: State University of New York Press, 1992), p. 2.
2. R. Freeman Butts and Lawrence A. Cremin, *A History of Education in American Culture* (New York: Holt, Rinehart and Winston, 1953), p. 103.
3. Robert Francis Seybolt, *The Private Schools of Colonial Boston* (Cambridge, Mass.: Harvard University Press, 1935), p. 9.
4. Butts and Cremin, p. 103.
5. Seybolt, p. v.
6. Ibid., p. 92.
7. Quoted in Butts and Cremin, p. 192.
8. Quoted in Spring, p. 25.
9. Ibid., p. 27.
10. Ibid., p. 21.
11. George S. Counts, *The Social Composition of Boards of Education* (Chicago: The University of Chicago, 1927), pp. 82, 97. See also Daniel Hager, "Educational Savior?" *The Freeman*, June 1999.
12. Ibid., p. 86.
13. Ibid., p. 91.

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THE FREEMAN
Ideas On Liberty

Subsidized Education

by Russell Madden

It's an annual ritual. With a sense of dread tinged with resignation, college students, or their parents, wait to discover how much this year's tuition will rise. Unlike their experience with new computers, they entertain no expectation that rates for their education will decrease. The upward spiral in prices appears inexorable.

Yet is that the way it must be?

For a student in college between 1997 and 2001, average total costs will be nearly $46,000 at government institutions, reports *Investor's Business Daily* (December 8, 1998). For those in private schools, the news is even bleaker. Students face expenses approaching $97,000. Twenty years from now, graduates may well be staggered by costs of $157,000 and $327,000, respectively.

In the past four decades, the total yearly spending on higher education increased from $7 billion to $170 billion a year. Financial aid at both the state and federal levels reached $60 billion in 1998, with guaranteed student loans comprising nearly 60 percent of that aid, a six percent increase from 1997. Many people would contend that such a bump in financial aid is justified given the price hikes in tuition and other costs. Not only would they adamantly resist any attempt to lower that aid, they actively lobby for more.

Unfortunately, the first or most obvious answer to a problem is not necessarily the correct one. The reality is that government subsidies not only lead to ever greater educational costs, but also threaten the very existence of private institutions of higher learning.

Two things need to be considered in this matter: basic economic principles and individual freedom.

Supply and Demand

The price we pay for any good or service is essentially determined by relative supply and demand. Other things being equal, the greater the supply of a product with a given demand, the lower the price the supplier will ask and obtain. Conversely, when demand rises relative to supply, prices will increase.

This is as it should be. Through this process, consumers indicate the importance they attach to a certain product or service by their willingness to purchase it at a given price. This insures that economic goods flow to the people who will pay the most for them. Those who are outbid will turn elsewhere to satisfy their desires.

Under normal circumstances, when a product's price is high and supply relatively low, more producers move into that line of work, hoping to cash in on greater returns than they might obtain producing other goods or services. This increased supply then tends to bring down prices. Left to operate on its own, supply and demand will bring goods and prices into equilibrium until all the supply is purchased by those willing to pay the price.

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What happens, though, if the price of a product is artificially set below its clearing price?

If music CDs usually sell for, say, $15, there will be a given number of people willing to purchase them at that price. However, if a third party decides to subsidize music lovers to the tune of $5 per CD, more people will decide they can afford to purchase CDs. Demand will increase. Delighted producers will make more of them. Sales will increase.

Before long, producers will realize that all those people willing to buy CDs at the unsubsidized price of $15 are paying less than they are willing to pay. So the producers will start increasing their prices, say to $17 at first, then $19, then $20. After all, with the subsidy, the consumer has to pay only $15.

But some consumers who have grown accustomed to buying cheaper CDs will have to cut back on their purchases or stop entirely. They are unhappy about seeing their living standard fall. So they demand a larger subsidy, joined by the producers, who face declining sales. If the buyers succeed in getting the "music they deserve" at the price they want, the whole cycle begins again.

So it is with government programs that mask the true costs of college for students. State and federal grants, guaranteed student loans, and direct subsidies to public colleges and universities lower the apparent price of obtaining a college education. This leads to a higher demand. College administrators then feel justified in increasing tuition and fees, realizing that many if not most students are subsidized in one form or another.

The cycle is born: raise tuition; give out more aid; raise tuition again.

Lesser Students

A side effect of this policy is that it attracts more poorly qualified and less motivated students who value higher education less than others who are willing to pay the full price. Colleges have to devote more resources to remedial programs, and students in these programs have a greater dropout rate.

Another problem is that since public administrators do not have to show a profit to stay in business, they are less concerned with the satisfaction of their customers. (Remember the last time you had to wait in an interminable line at the post office or department of motor vehicles?) Administrators also have incentives to increase their budgets needlessly. After all, increased "costs" translate (through a kind of self-fulfilling prophecy) into increased subsidies.

According to the Heritage Foundation, in the 30 years since its inception in 1965, the federally guaranteed student loan program subsidized 74 million students to the tune of $180 billion. By artificially lowering interest rates and insuring banks against defaults, this program has actually raised the total cost of a college education in the long term for *all* students—whether they receive guaranteed loans or not.

While the short-term direct costs of subsidized loans are less than for loans obtained in a free market, the long-term result is to reinforce a cost spiral that outpaces the general price rise (as outlined above). With less attention paid to restraining spending—by administrators and students—waste and unnecessary expenses tend to increase more than they would in a market-based environment.

When combined with direct subsidies to government-owned colleges and universities, the loan program makes such institutions more attractive to students than they might otherwise be. Private colleges find it difficult to compete against public institutions whose price is lowered by taxpayers' money.

At the beginning of this century, 80 percent of students enrolled in private schools. Now that same percentage of students enters government-owned colleges. In the past 30 years, over 300 private institutions closed.

It is as if the government decided to subsidize one supplier of CDs and not another. Who would want to buy more expensive (unsubsidized) CDs? The second supplier would soon be out of business.

When government interferes in the supply of any good or service—whether it be CDs, food, or education—it distorts the behavior of consumers and producers alike. When the product is education, this process becomes outright dangerous. A vital society depends on

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a diversity of viewpoints and ideas. With government largesse comes government control. But government has no business regulating ideas. That is the essence of the First Amendment to our Constitution. Political leaders should not be picking winners or losers in the realm of education. Diversity in approach, attitude, and emphasis should be left to the producers and consumers of education.

Besides that encroachment on liberty, no one has a right to anyone else's money. The taxes diverted toward education are taken not only from those who *do* attend college but also from those who do not. No one should be forced to pay for something he does not use. Even less should anyone have his wealth, and the portion of his life which that wealth represents, taken from him to pay for the teaching of ideas he does not support.

Liberty, intellectual independence (personal and institutional), economic efficiency, and educational diversity and quality all argue that government subsidies and guaranteed student loans should end. Only in this way will the unceasing upward surge in tuition be moderated. Even more important, we can begin to restore respect for the freedom and dignity of each individual. □

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A Superpower's Prerogative

Being in love means never having to say you're sorry. Being a superpower apparently means the same thing. At least, that appears to be the lesson of President Bill Clinton's promiscuous use of force.

It seems almost unpatriotic to suggest that a president would attack other nations for political purposes. Yet Bill Clinton's conduct regularly raises this suspicion.

Shortly after testifying before the federal grand jury and giving his disastrous televised speech to the nation in August 1998, the President launched air strikes against both Afghanistan and Sudan. The timing seemed more than coincidental, since there was no compelling reason to attack when he did; indeed, the Joint Chiefs of Staff saw no need for immediate action.

Clinton's sustained bombing of Iraq on the eve of Congress's impeachment debate last fall seemed equally questionable. Nothing was gained by striking at Iraq at that moment. The alleged justification was a U.N. paper reaffirming what was already known about Iraq's resistance to arms inspections. Moreover, *Insight* magazine reported that the decision to attack preceded release of the study.

Then there's the war on Yugoslavia, which began in March. There were several embarrassing events that the President might have hoped to push off the front page—such as China's spying and contributions to his campaign, and Judge Susan Webber Wright's contempt citation against him in the Paula Jones case.

Clinton might be blameless, but his record of dissembling denies him any benefit of the doubt. The possibility that the President has been misusing the military for political purposes surely warrants at least a cursory examination by Congress, which is charged with declaring war and raising armies.

The assault on Sudan, in particular, brings up another profound issue of national abuse of power. Even if the President genuinely believed that the attack was necessary at the time, overwhelming evidence indicates that Washington hit the wrong target. Yet no one has been held accountable.

Of course, this isn't the first time that America demonstrated that it can bomb—or shoot—with impunity. In 1985 a U.S. Navy ship on patrol in the Persian Gulf downed an Iranian airliner. Washington claimed that the plane was descending, outside of normal civilian flight paths, and not emitting normal civilian signals. It turned out that the government lied on every count. Washington eventually paid compensation to Iran, but never owned up to the American people.

Similarly, the Clinton administration doesn't seem willing to confront its apparent mistake in Sudan. On August 20, 1998, a U.S. cruise missile destroyed the Ashifa Pharmaceutical Plant. American officials claimed that it produced nerve gas.

As with the Iranian airliner shoot-down, Washington offered a host of seemingly plau-

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sible justifications for its action. The plant was heavily guarded, run by the Sudanese military, financed by Saudi Arabian terrorist Osama bin Laden, produced no commercial products, and yielded a soil sample containing the chemical EMPTA, which is used in the production of VX, a nerve gas, and has no nonmilitary purpose.

Alas, as with the Iranian airliner, everything Washington said was subsequently disproved. Those who visited the plant said it was not guarded; even the administration abandoned its claim that bin Laden was behind the plant, shifting to the charge that the Sudanese military or Iraq was involved. But there was no evidence that Khartoum was involved and the alleged Iraqi connection was limited and seemingly innocuous. Sudanese dissidents said the new plant owner was nonpolitical.

It turns out the Ashifa factory did produce pharmaceuticals and veterinary drugs. Moreover, architects, engineers, and suppliers all said the plant lacked the extra space, equipment, materials, and air-sealed doors necessary for chemical weapons work.

Most important, EMPTA is difficult to isolate in soil; in fact, the incriminating soil sample could have resulted from the breakdown of common pesticides. EMPTA's composition resembles that of several herbicides and pesticides, and could be confused with them in an imperfect test. Moreover, it turns out that there are legitimate, though limited, commercial uses of EMPTA.

All told, observed Oxford chemistry professor R. J. P. Williams: " 'Trace' elements in adjacent soil are of no use. Either the administration has something to hide, or for some reason is withholding the evidence." Indeed, in February American chemists brought in by the plant's owners announced that their tests didn't detect even trace elements of EMPTA.

Yet the administration refused to accept any outside inquiry. Even as Washington demanded an international review of alleged Serb atrocities in Kosovo, it rejected Sudan's offer to open what remained of the plant for inspection, a dangerous course if the American charges were true.

Why did Washington reject Sudan's proposal? National Security adviser Sandy Berger declared that "we had overwhelming grounds to strike this facility."

Not that every administration official was so confident. One told the *New York Times*: "As an American citizen, I am not convinced of the evidence." In fact, the administration eventually dropped its freeze on the plant owner's assets—without, however, acknowledging fault.

Of course, maybe the administration was right. But Washington has no right to be judge and jury in its own case. First, bombing other nations should be a last rather than first resort. Yet the United States never demonstrated why it could not have achieved the same result through diplomatic pressure, which has worked in the past in Sudan. (That government previously expelled bin Laden.)

Second, targets should be chosen carefully. Even if Sudan was rightly attacked, there were other suspicious facilities—one near Khartoum that is tied to the military, for instance. One Pentagon official admitted: "There may have been better places to go."

Third, launching a military strike should require evidence that satisfies someone other than just Washington. In 1986 President Reagan was willing to release confidential information to justify the assault on Libya as retaliation against the bombing of a disco frequented by Americans in Berlin.

The administration's refusal to make a case to other nations strengthens the claim of Sudan's ambassador to the United States, Mahdi Ibrahim Mohamed, who argued that the attack "was an act of lawlessness against the Sudan." Even Milt Bearden, the CIA's former station chief in Khartoum, said that he had his doubts about administration claims.

Yet today the issue lies forgotten. Washington has moved on; it has bombed Yugoslavia into rubble, making such inexcusable mistakes as hitting the Chinese embassy along the way.

This situation obviously isn't good for other nations. It also isn't good for America. For a government willing to act lawlessly abroad is likely to do the same at home.

Being the world's only superpower yields responsibilities as well as benefits. One of those is admitting when it is wrong. □

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THE FREEMAN
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The Bathtub, Mencken, and War

by Wendy McElroy

"Not a plumber fired a salute or hung out a flag. Not a governor proclaimed a day of prayer," wrote H.L. Mencken on December 28, 1917, in the *New York Evening Mail*. The occasion for the iconoclastic journalist's lament was "A Neglected Anniversary," so titled because, as Mencken declared, America had neglected to celebrate the 75th anniversary of the invention of the modern bathtub, which had occurred on December 20, 1842, in Cincinnati, Ohio.

He proceeded to offer a history of the bathtub in the United States. President Millard Fillmore had installed the first one in the White House in 1851. This had been a brave act on Fillmore's part, since the health risks of using a bathtub had been the subject of great controversy within the medical establishment. Indeed, Mencken observed, "Boston early in 1845 made bathing unlawful except upon medical advice, but the ordinance was never enforced and in 1862, it was repealed."

"A Neglected Anniversary" was the direct result of the anti-German propaganda that dominated the newspapers in the years before and during America's involvement in World War I. Mencken was an established and respected newspaperman. He had started his career as a reporter for the Baltimore *Morning Herald* in 1899, becoming city editor in 1904. In 1906 he began his long association with the Baltimore *Sun*. Yet during America's anti-German period, he could not get material on World War I published because of his pro-German views, which sprang from a love of the culture rather than from its politics. Mencken was enraged by the popular portrayal of Germans as "barbarous Huns" who committed atrocities such as the widely reported bayoneting of Belgian babies. (Although this accusation had been absolutely accepted by the American people, it was later proven to be pure Allied propaganda.)

Mencken attempted to infuse some real-world perspective on the war into American newspapers. Near the end of 1916 he traveled as a reporter to the eastern front to cover the hostilities, but the breakdown of diplomatic relations between Germany and America forced him to return. At home he discovered to his horror that most of his dispatches had not been published. Edward A. Martin writes in *H.L. Mencken and the Debunkers*, "It was 1917; Mencken, passionately pro-German, felt muzzled by the excesses of patriotism that dominated the attitude of Americans. The 'Free Lance' column [Mencken's daily column in the *Evening Sun*] had been a casualty, in 1915, of his unpopular views of the war. The war and all of its ramifications were excluded from his writing until after 1919."

Thus, Mencken—a political animal to the core—turned to nonpolitical writing in order to publish. A *Book of Prefaces*, a collection of literary criticism, appeared in 1917. His book on the position of women in society, *In Defense of Women*, was issued in 1918. And

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the first edition of Mencken's magnum opus, *The American Language*, emerged in 1919. He also wrote for the literary magazine he co-edited with George Nathan, *The Smart Set*.

But Mencken was far from sanguine about having his political views suppressed. He complained to Ellery Sedgwick, editor of *The Atlantic Monthly*, whose pages were also closed to him: "It is, in fact, out of the question for a man of my training and sympathies to avoid the war. . . . How can I preach upon the dangerous hysterias of democracy without citing the super-obvious spy scare with its typical putting of public credulity to political and personal uses?"

Seeking an Outlet

His restless frustration found vent in "A Neglected Anniversary." Like so much of Mencken's writing, the article was not quite what it seemed to be on the surface. It had levels of meaning. "A Neglected Anniversary" was a satire destined to become a classic of this genre of literature in much the same manner as Jonathan Swift's "A Modest Proposal," which satirized English policy in Ireland. In the article, Mencken spoke in an eloquent tone of mock reason, which was supported by bogus citations and manufactured statistics.

In short, his history of the bathtub was an utter hoax set within the framework of historical fact.

The modern bathtub had not been invented in Cincinnati. Fillmore had not introduced it into the White House. The anti-bathtub laws Mencken cited were, to use one of his favorite words, "buncombe."

Calling the hoax "an amazing mixture of obvious fact and hard to refute fiction," the author of *An Un-Neglected History*, P. J. Wingate, observed, "The story said that Millard Fillmore became President in 1850. True. It was easy to look that up. Also it said, obliquely, that Gen. Charles M. Conrad was Secretary of War under Fillmore. True again." As for the "hard to refute fiction," Wingate continued: "Mencken set a couple of very carefully hidden traps. He quoted from *The Western Medical Repository* of April 23, 1843, and the *Christian Register* of July 17, 1857. No editor or scholar in the land could find these imaginary journals but they had plausible names." Moreover, Mencken's citation of specific dates lent credibility to the quotations so that researchers might well assume that their own archives were incomplete.

The journalist's purpose was not "good clean fun," though it is certain Mencken enjoyed the hoax. "A Neglected Anniversary" was an act of merry contempt directed at journalists who blithely reported fiction as fact and at readers who were so gullible as to believe blatantly false reports without question. As he later wrote, "One recalls the gaudy days of 1914–1918. How much that was then devoured by the newspaper readers of the world was actually true? Probably not one per cent. Ever since the war ended learned and laborious men have been at work examining and exposing its fictions."

Through his hoax, Mencken demonstrated to himself and to selected friends that the American public would believe any absurdity, as long as it appealed to their imagination or emotions. They would even believe a nonexistent inventor in Cincinnati, Adam Thompson, had hired blacks to haul water "from the Ohio river in buckets" to his bathtub because the city then lacked running water.

Keeping Quiet

Content with his private joke, Mencken remained silent about the hoax until a follow-up article, "Melancholy Reflections," appeared in the *Chicago Tribune* on May 23, 1926, some eight years later. This was Mencken's confession. It was also an appeal for reason to the American public.

His hoax was a joke gone bad. "A Neglected Anniversary" had been printed and reprinted hundreds of times in the intervening years. Mencken had been receiving letters of corroboration from some readers and requests for more details from others. His history of the bathtub had been cited repeatedly by other writers and was starting to find its way into reference works. As Mencken noted in "Melancholy Reflections," his "facts" "began to be used by chiropractors and other such

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quacks as evidence of the stupidity of medical men. They began to be cited by medical men as proof of the progress of public hygiene." And, because Fillmore's presidency had been so uneventful, on the date of his birthday calendars often included the only interesting tidbit of information they could find: Fillmore had introduced the bathtub into the White House. (Even the later scholarly disclosure that Andrew Jackson had a bathtub installed there in 1834—years before Mencken claimed it was even invented—did not diminish America's conviction that Fillmore was responsible.)

Mencken speculated on the probable response to his confession, "The Cincinnati boomers, who have made much of the boast that the bathtub industry, now running to $200,000,000 a year, was started in their town, will charge me with spreading lies against them. The chiropractors will damn me for blowing up their ammunition. The medical gents, having swallowed my quackery, will denounce me as a quack for exposing them." He wondered whether disclosing the truth about the bathtub would lead to a renewed cry for his deportation to Russia as a Bolshevik.

One can only speculate on whether the actual response to "Melancholy Reflections" surprised Mencken, who was a practiced cynic by then. Many people believed that his confession, and not the original article, was the hoax. Mencken felt impelled to pen a second follow-up appeal, titled "Hymn to the Truth." Writing in the *Chicago Tribune* of July 25, 1926, he commented, "The Herald printed my article ["Melancholy Reflections"] on page 7 of its editorial section . . . with a two column cartoon labeled satirically, 'The American public will swallow anything.' And then on June 13, three weeks later, in the same editorial section but promoted to page 1, this same Herald reprinted my 10 year old fake—soberly and as a piece of news!"

Mencken's history of the American bathtub had been so graceful and charmingly constructed that people simply wished to believe it. Since then, curious researchers have thor-

H. L. Mencken
(1880–1956)

oughly discredited Mencken's bathtub "facts." Biographies of Mencken feature the hoax he had played so well that even he could not debunk it. (All the bathtub pieces and more are compiled in *The Bathtub Hoax and Other Blasts and Bravos*, edited by Robert McHugh.) Yet references to Fillmore's first bathtub still can be found. That piece of fiction has even made it into the Age of the Internet. The Internet Public Library's page on Fillmore, part of its series on presidents, lists under "Points of Interest" the following: "The White House's first library, bathtub and kitchen stove were installed by the Fillmores." (See http://www.ipl.org/ref/POTUS/mfillmore.html.)

It is easy to laugh and lose sight of the motive behind "A Neglected Anniversary." Mencken wished to demonstrate the dramatic inaccuracies of many newspaper accounts, which are too often swallowed whole by uncritical readers. This phenomenon is especially prevalent in periods of war, when great efforts are made to stir the public's emotions so that it unquestioningly supports the government's policies. When reading accounts of war, it is valuable to consider Mencken's estimate that "probably not one per cent" of it is true. □

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THE FREEMAN
Ideas On Liberty

Ludwig von Mises's *Human Action*: A 50th Anniversary Appreciation

by Richard Ebeling

Fifty years ago, on September 14, 1949, Yale University Press released a major new work—*Human Action* by the Austrian economist Ludwig von Mises.[1] The following week, in his regular *Newsweek* column, Henry Hazlitt referred to this book as "a landmark in the progress of economics. . . . *Human Action* is, in short, at once the most uncompromising and the most rigorously reasoned statement of the case for capitalism that has yet appeared. If a single book can turn the ideological tide that has been running in recent years so heavily toward statism, socialism, and totalitarianism, *Human Action* is that book. It should become the leading text of everyone who believes in freedom, individualism, and . . . a free-market economy."[2]

It is useful to recall the state of the world when this book first appeared. The Soviet system of central economic planning had been imposed by Stalin on all of eastern Europe. In Asia, Mao Zedong's communist armies were just completing their conquest of the Chinese mainland. In western Europe, many of the major noncommunist governments were practicing what the German free-market economist Wilhelm Röpke called at the time "national collectivism"—a "combination of repressed inflation, collectivist controls, 'full employment,' exchange control, state monopolies, bilateralism, subsidies, fiscal socialism [and] 'cheap money' policies." In the United States, government policy was guided by what Hazlitt referred to in *Newsweek* a few weeks before his review of *Human Action* as "ultra-Keynesian ideology."[3]

In *Human Action*, Mises opposed every one of these trends and policies, plus many others in contemporary social philosophy, philosophy of science, and economic theory and method. He challenged the foundations, logic, and conclusions of every facet of twentieth-century collectivism. As F. A. Hayek explained, in reviewing the German-language version of the book:

> There appears to be a width of view and an intellectual spaciousness about the whole book which are much more like that of an eighteenth-century philosopher than that of a modern specialist. And yet, or perhaps because of this, one feels throughout much nearer reality, and is constantly recalled from the discussion of technicalities to the consideration of the great problems of our time. . . . It ranges from the most general philosophical problems raised by all scientific study of human action to the major problems of economic policy of our own time.[4]

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And as his American student and friend Murray N. Rothbard pointed out, "*Human Action* is it: Mises's greatest achievement and one of the finest products of the human mind in our century. It is economics whole . . . and provided a way out for the discipline of economics, which had fragmented into uncoordinated and clashing sub-specialties. In addition to providing this comprehensive and integrated economic theory, *Human Action* defended sound, Austrian economics against all its methodological opponents, against historicists, positivists, and neo-classical practitioners of mathematical economics and econometrics. He also updated his critique of socialism and interventionism."[5]

Early Career

Ludwig von Mises was born in Lemberg, Austria-Hungary, on September 29, 1881. Though originally interested in history, he turned to economics shortly after entering the University of Vienna in 1900 and reading *Principles of Economics* by Carl Menger, founder of the Austrian school of economics. While at the University he studied with Eugen von Böhm-Bawerk, the person perhaps most responsible for establishing international respect for the Austrian school. In 1906 Mises was awarded a doctoral degree in jurisprudence (at that time economics was studied as part of the law faculty at the university).

Beginning in 1909 Mises worked at the Vienna Chamber for Commerce, Trade, and Industry as an economic analyst within its department of finance. In this capacity he evaluated and made recommendations about various legislative proposals in the areas of banking, insurance, monetary and foreign-exchange policy, and public finance. In the years between the two world wars, he was a senior secretary with the Chamber, enabling him to argue with some authority on the economic policy issues confronting the Austrian government.

The consensus of economists and others who knew Mises during this time is that he was extremely influential in moderating collectivist and inflationary policies in Austria. He was instrumental in preventing the full nationalization of the Austrian economy by a socialist government immediately after World War I. He helped to redirect public and political opinion to bring the Great Austrian Inflation to an end in 1923. And in the aftermath of this monetary disaster, he played an important role in writing the statutes and bylaws of the reconstructed National Bank of Austria, under the auspices of the League of Nations in 1924.

In 1913, Mises had been given the right to teach at the University of Vienna as a *Privatdozent* (an unsalaried lecturer); in 1918 he was promoted to the title of "Professor Extraordinary." Almost every semester until 1934, he taught a course that influenced a new generation of young Viennese and foreign scholars. He also co-founded and served as vice president of the Austrian Economic Society.

Influential Seminar

In 1920 Mises began a private seminar that normally met twice a month from October to June at his Chamber office. It brought together a group of Viennese scholars in economics, political science, philosophy, sociology, and law, many of whom became world-renowned scholars in their respective fields. The participants, almost to a man, recalled the seminar as one of the most rigorous and rewarding experiences of their lives.

One other important activity undertaken by Mises during this period was his founding of the Austrian Institute for Business Cycle Research in 1926. With 27-year-old F. A. Hayek as the first director, the institute was soon internationally recognized as a leading center for economic forecasting and policy analysis in Central Europe.

In 1934 Mises was offered and accepted a position as professor of international economic relations at the Graduate Institute of International Studies in Geneva, Switzerland. Shortly after arriving in Geneva he set about a project he long had in mind, the writing of a comprehensive treatise on economics. Most of his time during the next six years, outside of his light teaching responsibilities, was devoted to this plan. In May 1940, as Europe was falling under the dark cloud of Nazi occupation, this monumental work, *Nation-*

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alöknomie, was published in Switzerland. It served as the basis for his later English-language treatise, *Human Action*.

In the summer of 1940 Mises resigned from his position at the Graduate Institute and left for the United States.[6] His first years in America were not easy. He experienced great difficulty in finding a permanent teaching position, partly because of his age (he was 58 when he arrived in America) and partly because of the intellectual climate prevailing in America. His was a voice for an older classical liberalism and free-market capitalism that was out of step with the popular trends of socialism, interventionism, and Keynesian economics that were embraced by a large majority of American academics and policymakers.

Not until 1945 did he receive an academic appointment as visiting professor in the Graduate School of Business at New York University, a position and status he retained until his retirement in 1969 at the age of 87. During this almost quarter-century of teaching in the United States, Mises trained a new generation of economists in the tradition of the Austrian school.

International Reputation

In Europe, Mises had already established an international reputation as one of the most original and controversial economists of his time. Before World War I, in 1912, he had published *The Theory of Money and Credit*, in which he successfully applied the concept of marginal utility to explain the demand for money, demonstrated the process by which the interaction of the demand and supply of money established the purchasing power of the monetary unit, and developed a theory of the business cycle which showed that government manipulations of the market rate of interest was the primary cause of economy-wide fluctuations in production, investment, and employment.[7]

In the early 1920s Mises also challenged the most fundamental assumptions of a socialist planned economy. In his article on "Economic Calculation in the Socialist Commonwealth" (1920) and in his treatise *Socialism: An Economic and Sociological Analysis* (1922), he showed that socialism's abolition of private property, the market economy, and money prices for both consumer goods and the factors of production meant the end of rational economic calculation. Rather than ushering in a utopian epoch of material plenty, socialist central planning would create economic waste, inefficiency, and stagnant or falling standards of living.[8]

In later books, *Liberalism* (1927) and *Critique of Interventionism* (1929), Mises argued that only free-market capitalism could create a social order of individual freedom, material prosperity, and domestic and international peace. A regulated and "hampered" market economy could only produce an economy of distortions, imbalances, political corruption, and abuse.[9]

And in 1933, Mises published a series of essays under the title *Epistemological Problems of Economics*, in which he argued that economics was a distinct science derived from the insight that all social processes derive from the choices and actions of the individual participants in the social and market order. Attempts to reduce conscious and intentional human conduct to the physicalist methods of the natural sciences would not merely distort any real understanding of human decision-making and activity, it would also create a serious false impression that social and market processes could be manipulated and controlled much like inanimate matter in a laboratory experiment.[10]

Integration of Themes

As both Hayek and Rothbard clearly understood, however, it was in *Human Action* that all these themes were integrated into a systematic conception of man, the social order, the market economy, and its alternatives. Mises explained that our knowledge of the logic of human action is fundamentally different from the way scientists acquire knowledge about the physical world. The inanimate matter of the external world can be measured, quantified, and organized on the basis of various hypotheses concerning the nature of and relationships between the physical entities of

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the universe. But we have no way of determining the "real" or "true" causal reasons why the elements of nature have the properties and relational characteristics they seem to possess. We can only observe, hypothesize, quantitatively test, and draw tentative conclusions that may be falsified tomorrow.

Human sciences like economics, however, have a radically different starting point. Here we have the ability to know the nature and properties of the causal factor that generates the complex relations of the social and economic processes. All the social processes have their origin in and can be reduced to the actions and reactions of individual human beings. Being human, the social scientist can draw on a source of knowledge unavailable to the natural scientist: introspection. That is, the social scientist can look within himself and trace out the logical and formal characteristics of his own mental processes.

As Mises expressed it, "action" is reason applied to purpose. By understanding the logic of our own reasoning processes, the social scientist can comprehend the essentials of human action: that man, as a conscious being, invariably finds some aspects of his human condition unsatisfactory; he imagines ends or goals that he would like to attain in place of his present or expected circumstances; and he perceives methods and means to try to achieve them. But he soon discovers that some of the means with which he could attain ends are limited in quantity and quality relative to their potential uses. Hence, man is confronted with the necessity to choose among desired ends, and has to set some goals aside either for a day or forever, so those means can be used for the pursuit of other ends to which he has assigned greater importance. Few human decisions, however, are categorical—all or nothing. Most are incremental, giving up a little of one attainable end so as to possibly attain a little bit more of some other desired end; thus, most choices are made at the "margin."

From these elementary and self-evidently true foundations, all the complex theorems of economics can be traced out. But the resulting "laws" of economics are not open to quantitative verification or prediction. The laws of economics, in other words, are logical relationships, and not empirical ones. Why? Because man has volition, free will, and the ability to change his mind and imagine new possibilities that make his actions and responses in the future different in their concrete form from what they were yesterday or are today. Hence, the search for a quantitative economics for deterministic prediction of what men and markets will do today, tomorrow, or a year from now is the pursuit of the unattainable.

Division of Labor

For Mises, one of the greatest accomplishments of mankind was the discovery of the higher productivity arising from a division of labor. The classical economists' analysis of comparative advantage, under which specialization in production increases the quantity, quality, and variety of goods available, was more than merely a sophisticated demonstration of the mutual gains from trade. In Mises's view, the law of comparative advantage was in fact "the law of human association." The mutual benefits resulting from specialization, he argued, were the origin of society and the starting point for the development of civilization.

The rationality of the market economy arises from its ability to allocate the scarce means of production in society for the most efficient satisfaction of consumer wants in a complex division of labor; that is, the market sees to it that the means at people's disposal are applied to their most highly valued uses. This requires some method to discover the alternative uses for which those scarce means can be used and their relative value in those competing applications.

Competitively determined market prices, in an institutional setting of private ownership of the means of production, provides the means for solving this problem, Mises said. On the market for consumers' goods, people express their valuations for commodities in the form of the prices they are willing to pay for various quantities and qualities of finished goods. On the market for producers' goods, entrepreneurs express their appraisal of the relative future profitability of factors of production in

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the manufacture of various goods through the prices they are willing to pay for those factors.

Those prices, expressed through the common denominator of money, make economic calculation possible. The relative costs and expected revenues from alternative productive activities can be compared with ease and efficiency. The competitive processes of the market tend to assure that none of the scarce means of production are applied to any purpose for which there is a more highly valued use as expressed in a rival entrepreneur's bid for those factors. Through competition among entrepreneurs, the means derive their value from their ability to produce goods desired by consumers. Thus the means available in society are put in the service of people's ends. And the relative values assigned to those means in their alternative uses reflects the relative valuations of the consumers who desire the products that can be manufactured with them.

Mises concisely summarized the role and nature of competition and the competitive process in the market order:

> Competitors aim at excellence and preeminence in accomplishments within a system of mutual cooperation. The function of competition is to assign to every member of a social system that position in which he can best serve the whole of society and all its members. It is a method for selecting the most able man for each performance. . . .
>
> The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual.[11]

Mises's crucial argument against both socialism and interventionism was that they

Ludwig von Mises (1881–1973)

prevented the effective operation of this market process, and thus reduced the rationality of the social system. The triumph of socialism—with its nationalization of the means of production under government control and central planning—meant the irrationalization of the economic order. Without market-based prices to supply information about the actual opportunity costs of using those resources as estimated by the competing market actors themselves, decision-making by socialist central planners would be arbitrary and "irrational." The socialist economy, therefore, was fundamentally anti-economic.

Deflecting the Market

Interventionism does not abolish the market economy. Instead, it introduces various forms of controls and regulations that necessarily deflect production from the paths that would have been followed if entrepreneurs had been left free to more fully follow their own judgments concerning the use of the factors of production in the search for profits through the best satisfaction of consumer demand. Price

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controls, in particular, Mises argued, distort the competitively determined relationships between selling prices and cost-prices, resulting in severe misallocation of resources and misdirected production activities.

Mises also restated and refined the Austrian theory of money and the business cycle in *Human Action.* He developed a dynamic sequence analysis enabling him to explain the process by which changes in the quantity of money brought about redistribution of wealth and relative price changes that modified the allocation of resources; his analysis also explained how monetary changes introduced through the banking system could distort interest rates and generate business cycles. A central conclusion was that business cycles were not a phenomenon inherent in the market economy. Rather, they were caused by government mismanagement of the monetary and banking system. Only a separation of money and the banking system from all government control and influence could reduce, if not eliminate, the recurring patterns of inflation and depression.[12]

In 1949 Mises's arguments were ignored or scorned as the reactionary misconceptions of a man out of step with the more enlightened ideas and economic policies of the postwar era. But now, in 1999, it is evident that it was Mises who understood far better than the vast majority of his contemporary economists and policy advocates the fundamental flaws in socialism, interventionism, and the welfare state.

Since Mises's death on October 10, 1973, at the age of 92, the world has seen the collapse of socialist central planning and the economic and ideological bankruptcy of the interventionist welfare state. The superiority of the market economy, the competitive process, and private entrepreneurial creativity is widely admitted if, alas, still far from being allowed to freely function. No small credit is due to Mises, the clearest, most uncompromising voice for economic reason and respect for the freedom and dignity of the individual in our century.

It is *Human Action* that for half a century has served as the medium through which tens of thousands have learned these lessons of a society of peace, freedom, and prosperity. Like Adam Smith's *Wealth of Nations*, it stands as one of the great works not only of economics but also of human and social understanding. And like Smith's book, it will remain a classic, as read and as influential in the 21st century as in our own time, because it speaks to and about the most fundamental and universal truths of man and the human condition. □

1.The first edition of *Human Action: A Treatise on Economics* has recently been reprinted in a handsome edition by the Ludwig von Mises Institute of Auburn, Alabama. The last edition revised by Mises in 1966 is available from the Foundation for Economic Education, prepared by Bettina Bien Greaves.

2. Henry Hazlitt, "The Case for Capitalism," *Newsweek*, September 19, 1949.

3. Henry Hazlitt, "Wrong Diagnosis, Wrong Remedy," *Newsweek*, August 15, 1949.

4. F. A. Hayek, review of *Nationalökonomie: Theorie des Handelns und des Wirtschaftens* in *The Economic Journal*, April 1941, pp. 125, 127.

5. Murray N. Rothbard, *Ludwig von Mises: Scholar, Creator, Hero* (Auburn, Ala.: Ludwig von Mises Institute, 1988), p. 64.

6. See Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978 [1940]) for his own memories of his life, work, and contributions before he left Europe in 1940.

7. Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Classics, 1981). On Mises's contributions to monetary theory and policy, see my "Ludwig von Mises and the Gold Standard," in Llewellyn H. Rockwell, ed., *The Gold Standard: An Austrian Perspective* (Lexington, Mass.: Lexington Books, 1983), pp. 35–59.

8. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," reprinted in Israel M. Kirzner, ed., *Classics in Austrian Economics*, vol. 3 (London: William Pickering, 1994), pp. 3–30; and *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981). On Mises's contribution to the theory of socialism and the planned economy, see my "Economic Calculation Under Socialism: Ludwig von Mises and His Predecessors," in Jeffrey M. Herbener, ed., *The Meaning of Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1993), pp. 56–101.

9. Ludwig von Mises, *Liberalism: The Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1985]); and *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996); also, *Interventionism: An Economic Analysis* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1998 [1940]).

10. Ludwig von Mises, *Epistemological Problems of Economics* (New York: New York University Press, 1981). On Mises's conception of human action and his contributions to the theories of the market economy, socialism, and interventionism, see my "A Rational Economist in an Irrational Age: Ludwig von Mises," in Richard M. Ebeling, ed., *The Age of Economists: From Adam Smith to Milton Friedman*, Champions of Freedom Series, vol. 26 (Hillsdale, Mich.: Hillsdale College Press, 1999), pp. 69–120.

11. Ludwig von Mises, *Human Action: A Treatise on Economics* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), pp. 117, 338.

12. For an exposition of the Austrian theory of money and the business cycle and its explanation of the causes and duration of the Great Depression of the 1930s, see my "Monetary Central Planning and the State," parts 1–12, *Freedom Daily*, January–December 1997.

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The Hazards of Truth-Telling

Language is a priceless gift we inherit from people who came before us and bequeath to those who come after us. Language is a human product, but it is not made by any particular person or group. Because the meaning of what is said depends both on the speaker and on the listener, language is a special kind of patrimony. We receive it in trust, as it were. We use it. And we pass it on when we die. Do we leave language better or worse than we have received it? This choice is part of our destiny as language-using beings. Our contact with language—like our contact with persons—is rarely neutral: either we use language well and improve it, or we use it badly and disimprove it. What is our criterion, you may ask, for making this judgment? Our criterion is our sense of what is right and what is wrong.

I believe that plain speaking and truth-telling are good and improve language, and that equivocating and prevaricating are bad and debauch language. Many people say they agree with this judgment, but they do not mean it, and for good reasons. It is dangerous to speak plainly and to tell the truth, not just in far-off totalitarian societies but in the United States today.

This brings me to remark on one of the great paradoxes of education in our society. We ceaselessly exhort young men and women to think for themselves. However, once people think for themselves, their thoughts—and hence what they say and what they write, and how they speak and how they write—are likely to differ from what passes as politically correct. "To write in plain, vigorous language," wrote George Orwell, "one has to think fearlessly, and if one thinks fearlessly one cannot be politically orthodox." This paradox seems to be an intrinsic part of our ambivalence about daring to face the truth. The lives of many persons we now revere illustrate the sad or even tragic consequences of truth-telling.

For example, Socrates liked to go for walks with his pupils who were eager to hear his reflections about the perennial moral dilemmas of life. The Athenian senate considered his behavior subversive—a corruption of youth, a charge not unlike that now leveled against tobacco companies—and sentenced Socrates to death. He chose to kill himself, instead, an option then accepted as honorable and legal, now rejected as mentally disordered and illegal.

John Huss (c. 1370–1415) was a Bohemian priest. Influenced by the writings of John Wycliffe, he expressed doubts about the dogma of transubstantiation and opposed the sale of indulgences. Charged with heresy, he was burned at the stake.

Galileo Galilei (1564–1642) was not only a brilliant astronomer, but also a gifted popularizer, in Italian, of the Copernican theory of the solar system. For this, he was denounced to the Inquisition. Led by Cardinal Robert Bellarmine (1542–1621), the church's chief theologian, the Vatican declared Copernican-

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ism "false and erroneous" and placed Copernicus's writings on the Index. Bellarmine—by all accounts a decent man—asked Galileo to neither "hold nor defend" the heliocentric theory, a request Galileo honored. After Bellarmine died, he was sainted.

Punished for Doing Good

The life of the truth-teller punished for his good deeds whose story has touched me the most deeply is that of the Hungarian physician Ignaz Philipp Semmelweis (1818–1865). Semmelweis's crime was twofold. He discovered the cause of puerperal fever, which, in the early decades of the nineteenth century, killed poor women who delivered their babies in teaching hospitals rather than in their homes by the tens of thousands. That was bad enough. What made it worse was that he also discovered—before it was discovered that bacteria cause diseases—that, by washing their hands in a disinfecting solution, physicians could prevent the disease. Unable to reconcile himself to the rejection of his simple remedy and the continuing wholesale medical killing of parturient women, Semmelweis's behavior became increasingly "abnormal." He was incarcerated in an insane asylum and soon thereafter died. The cause of his death remains a matter of controversy among medical historians. Today, the medical school in Budapest bears his name.

A less familiar but no less instructive example of the hazards of truth-telling is the experience of Oliver Wendell Holmes (1809–1894), father of the famous Supreme Court justice of the same name (1841–1935). Trained as a physician, Holmes was professor of anatomy and physiology at Harvard from 1847 until his retirement in 1882. In 1843, he produced his most enduring medical work, an essay titled *The Contagiousness of Puerperal Fever,* in which he maintained that the disease was transmitted from patient to patient by the obstetrician. This proposition, like Semmelweis's, met vigorous opposition from leading American obstetricians. However, unlike Semmelweis, Holmes was unruffled by entrenched professional ignorance and added to his achievements by becoming a celebrated author.

Three of France's most famous men of letters—Voltaire (1694–1778), Victor Hugo (1802–1885), and Émile Zola (1840–1902)—had to leave their homeland to write freely. Zola's encounter with the official deniers of truth is the most dramatic. At an early stage in the proceedings, he decided that Captain Alfred Dreyfus was innocent. In 1898, he published his famous open letter—which began with the words "J'accuse"—denouncing the French General Staff of having framed Dreyfus. The publication of this piece led to his being prosecuted for libel and convicted of the charge. He fled to England.

Twain's Advice

What, then, are young men and young women to do when they heed the advice to think for themselves and arrive at thoughts that differ from what passes as politically correct? One of their choices is to follow Mark Twain's advice. He wrote: "It is by the goodness of God that in our country we have those three unspeakably precious things: freedom of speech, freedom of conscience, and the prudence never to practice either."

Had Mark Twain heeded his own advice, he would not have been the great writer he was. He spoke freely, albeit some of his most heretical thoughts were published only posthumously. And he followed his conscience, often choosing to express himself cautiously and humorously, rather than recklessly or polemically.

"The truth," said Jesus, "shall set you free." Jesus did not say it will make you popular, or rich, or happy. He said it will set you free—and that it will do. And while freedom—true, inner freedom, what people used to call serenity—may not win you fame or fortune, it will enable you to look yourself in the mirror and to sleep at night.

In short, be courageous, but be careful. □

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THE FREEMAN
Ideas On Liberty

Economic Calculation Revisited

by Manuel Ayau

Now that outright socialism has failed, the quest for a third way has gained prominence. Political leaders insist that a free society is inherently unjust and the privileged prosper at the expense of the unfortunate many. Thus the state must correct the failures of the market.

The critics of the modern version of Western "capitalist" (properly called "mercantilist") societies are right on the issue of privilege, but they are wrong when they identify it with the free society, for in a truly free society privileges would be absent. It is precisely the injustice of state-granted privileges, such as corporate welfare, that gives the "capitalist" system its bad name. That deserves to be cleared up. But it is just as important to understand why the seemingly plausible intervention of governments in the quest for a third way is not the solution for the wrongs perceived. The case against that intervention is the same as the one that was brought to bear against socialism at the peak of its popularity.

In the 1920s a debate on "the problem of economic calculation" took place in Europe. The essence of the controversy was the thesis that without private property in the means of production, and its concomitant exercise of free exchange, no meaningful price structure could evolve to permit the economic allocation of resources. "Economic allocation" means that the products are of more value than the effort and the resources spent in production; it also means that these products are the best of the possible alternatives. Thus human cooperation and use of resources would enrich society. If the allocation was not "economic," for lack of a way (relative prices) to determine what continual adjustments must be made in the use of resources as conditions changed, society would impoverish itself and eventually collapse.

Socialist countries could indeed manage to survive by using the price structure of capitalist countries and copying (and sometimes improving) the scientific inventions and methods of production of the West. With a little bit of economic assistance, they could postpone the day of reckoning. Indeed, the United States provided aid to the Soviets in the 1920s, '30s, '40s, and so on until the '80s, in addition to large amounts of resources to prop up their satellites and semi-socialist countries in Africa and Latin America.

Debunkers Shunned

Since the argument regarding economic calculation was a logical and systematically articulated prediction of the failure of the socialist experiment in vogue at the time, its proponents became unpopular in academic circles. Initially, the problem of socialism was expounded by Austrian economist Ludwig von Mises. He sparked a lively debate, which F. A. Hayek (who won a Nobel prize in 1974) later joined to refute the outstanding socialist

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theoreticians Oskar Lange and Fred Taylor. Independently, T. J. B. Hoff in Norway argued the same point. Others, including the distinguished mathematician Leonid Kantorovich, also addressed the problem, to no avail. The debate was interrupted by World War II and many consider it now only a theoretical relic.

That the "the problem of economic calculation" critique is not exclusive to socialism is a point that has been largely missed. It is perhaps the most rigorous analysis of why an economy becomes inefficient and ultimately cannot function to the degree society departs from the legal system of private property and contracts; that is, to the degree government attempts to plan the economy. The discussion is pertinent not only to full socialism, but also to the mixed economies of today.

In the meantime it is sad to see the media full of news regarding economic crises all over the world. The economic woes of Russia, Asia, and Latin America are ever present. Most amazing was that almost everyone was surprised by the sudden demise of the Soviet socialist empire a decade ago. Immediately, the Eastern bloc countries swarmed with university professors and economic advisers from the World Bank, IMF, and agencies, all competing for opportunities to dispense wisdom, along with bundles of money from the U.S. taxpayers. Unfortunately only a handful of those advisers sought market solutions based on the sanctity of property and contracts, and the rule of law. True, most of them suggested privatization but with the same stifling economic regulations that pervade the "capitalist" countries, supposedly to correct the market's failures.

The analysis of the calculation problem is still pertinent, for it helps us to understand why crises recur all over the world, why the transition from socialism to capitalism without the rule of law has not been and cannot be successful, why Japan fails in its never-ending attempts to manage its economy, and why government economic intervention (planning) is bound to produce unintended and undesirable consequences. □

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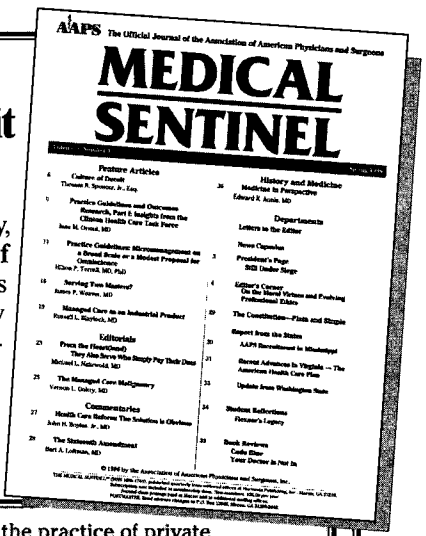

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"Liberty in Perfection": Freedom in Native American Thought

by Amy H. Sturgis

Preacher Samuel Peters's encounter with a free society was a memorable one. In 1781, he wrote in awe: "The conscious independence of each individual warms his thoughts and guides his actions. . . . Here is liberty in perfection!"[1]

Though he wrote in the shadow of the War for Independence, Peters was not praising the American colonists-turned-rebels. Instead, he had found life in the American Indian villages of New England to be the true experiment in liberty. He even went so far as to credit Amerindian rights theory as the catalyst for the colonial break with England, saying that the colonists "discovered that they themselves were men, and entitled to the rights of that race of beings; and they proceeded upon the same maxims which they found among the Indians."[2]

Samuel Peters's words exhort us to remember that we have inherited the language of liberty in many tongues. From the Greek Sophists and Roman orators to the Islamic economists and Patristic theorists, ancient and medieval thinkers led the inquiry into the nature of freedom. In the modern era much of what we recognize as classical-liberal thought flowed through nationalistic European streams: the realistic English tradition of law, the rationalistic French tradition of humanism, and the organic German tradition of individualism. Few scholars and students of liberty today, however, turn their eyes to North America to investigate the Amerindian contribution to the philosophy of freedom. Far from primitive or forgotten, the New World's indigenous legacy of individual liberty, limited government, and legitimate law offer insights as fresh and relevant as the new millennium.

Many Currents

Of course native American thought cannot be adequately simplified into one monolithic river any more than European or Anglo thought can be. Specific currents are more easily identified and discussed, however, thanks to the persistence of languages, written and oral records, third-party documentation, as well as the survival of political institutions today. Among these currents are the *Haudenosaunee*, or Iroquois Confederacy, of the northeast, and the *Tsalagi*, or Cherokee Nation, of the southeast. Together, they offer valuable examples of the first American republics.

In 1727 political theorist and scholar Cadwallader Colden wrote of the Iroquois Confederacy: "The Five Nations have such absolute Notions of Liberty that they allow no Kind of Superiority of one over another, and banish all Servitude from their Territories."[3] The five nations of what is today the Finger Lakes region of upstate New York—the

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Onondagas, the Senecas, the Mohawks, the Cayugas, and the Oneidas—had ended their intertribal warfare and formed a federal union in approximately 1200. The constitution uniting the nations was called *Kaianrekowa*, the Great Law of Peace. Recorded and preserved in wampum, this document codified laws for each nation, rules for the confederacy, and consistent rights protection for all citizens. National membership remained open, and other peoples joined the confederacy. The northeastern body eventually became known as the Six Nations after the formal addition of the Tuscaroras around 1714.

Of the Cherokee Nation in which he practiced, mid-eighteenth-century colonial surgeon George Milliken Johnson wrote: "Subjugation is what they are unacquainted with . . . there being no such thing as coercive Power among them."[4] In 1757, Raymond Demere agreed, saying there was no "Subjugation among them, they can't be compelled to do any Thing nor oblige them to embrace any Party except [as] they please."[5] The Cherokee Nation, located in the Appalachian region of what is today Virginia, North and South Carolina, Georgia, and East Tennessee, had like the Iroquois formed a republic centuries before Columbus. By the time of European contact, a complex clan-based common law provided national, regional, and local governance for four distinct regions and over 60 discrete towns. In 1827, the Cherokee Nation became the first native polity to write and ratify a national constitution in the European sense.

Scholars of the Iroquois and Cherokees have discovered what *Haudenosaunee* and *Tsalagi* descendants have reiterated for generations: these nations developed a consistent and sophisticated understanding of liberty in pre-contact North America.[6] We can learn much from Amerindian notions of the individual, the group, and the law.

Individualist Culture

Native American culture and politics revolved around the individual. The Cherokees used the metaphor of seven directions to explain this emphasis: North, South, East, West, Up, Down, and Where You Are. The position of Where You Are put the individual at the center of her universe, with the other six directions dependent on her. While this symbolic position honored the individual as the star in her own universe, it also implied that she possessed the power and the opportunity to keep that universe in balance. The Cherokees, like the Iroquois and others, viewed this balancing act as the product of lifelong self-discovery. To this end, the cultures offered a tolerant environment for artistic, sexual, philosophical, and spiritual experimentation. To reflect this they also allowed children to change their names as they grew and explored themselves. An act of heroism, a discovered talent, a cultivated physical or spiritual trait, even a famous relative could be cause for name-changing. The community thereby encouraged the individual to define and redefine himself freely throughout the course of his life.

This concern for individual liberty translated into politics. The Great Law of Peace included a section akin to the U.S. Bill of Rights, protecting the freedom of worship, speech, and assembly. The Cherokees limited town size so that all citizens could have the opportunity to speak in each council session if they so desired. Both republics were gender-blind, allowing women and men the same opportunities to participate and, if elected, to lead. (Indeed, the Cherokee language had no gendered pronouns. "He speaks in council" and "she speaks in council" both translated as "a Cherokee speaks in council.") This inclusiveness led to political equality under the constitutions. Divorce law and property law, for example, unlike its counterparts across the ocean, recognized no difference between men and women.

The value the Amerindians placed on the individual meant that the power of the group, be that the town, region, nation, or confederacy, had to remain limited. Participation was one check on the power of government. Control could not rest with one party or faction alone because any leader had to build a coalition to survive. The Great Law of Peace required the consent of leaders from all five (later, six) nations for any law or action, and

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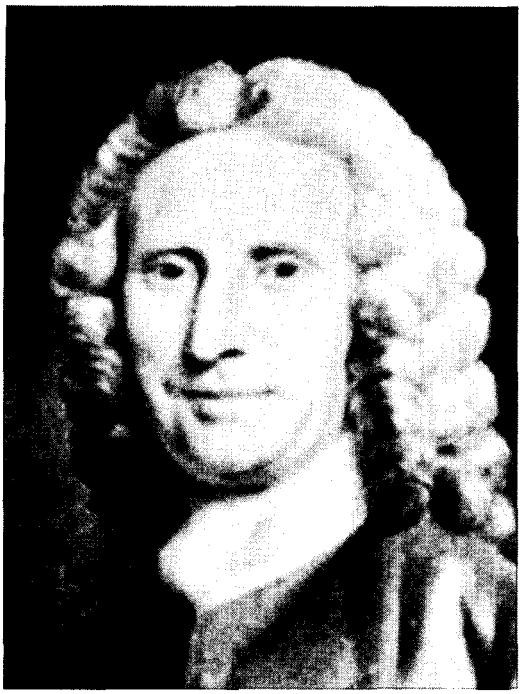

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Cadwallader Colden
(1688–1776)

Cherokee tradition required the consent of representatives from all seven clans, even at the town level. Beyond the need for coalition, the Iroquois maintained a structure of checks and balances not unlike the U.S. tripartite system. The Cherokees' right of dissent and withdrawal, a version of conscientious objection, further protected the rights of those in the minority.

Legitimate legal decisions, then, had to pass through coalitions from the local democracies to the greater republics via systems of checks and balances. Without taxes or full-time police forces or similar instruments of coercion, the governments of the Iroquois League and the Cherokee Nation did little save physically defend against external attack and internally protect the negative rights of the citizens. And what of illegitimate law? The Cherokees' system of individual and corporate withdrawal afforded the equivalent of "no confidence" votes. The Iroquois League had processes for the impeachment and removal of leaders who failed to uphold the constitution.

A combination of catastrophic depopulation (from massive epidemics following the introduction of smallpox and other diseases from Europe), imperial and colonial warfare, violent cultural miscommunications, and blatant bigotry prevented many Amerindian nations from enjoying economic and political development in tandem with European colonists and, later, U.S. citizens. Yet, despite these obstacles, some native Americans became capitalistic and constitutional powerhouses in their own right in the age after Columbus. The Cherokees, for example, developed a written language, a bilingual press, a ratified constitution, and the infrastructure of a modern nation-state. Thomas Jefferson was a particular admirer of such Cherokee leaders as Ostenaco and Doublehead. As President he praised the Cherokee Nation, acknowledging that its progress had "been like grain sown in good ground, producing abundantly," and extended his personal invitation to its members to join the United States as full citizens.[7]

It was, in fact, the Cherokees' very prosperity and success that later made them the target of the state of Georgia. By stripping the Cherokee citizens of their property and forcibly removing them to Indian Territory via the infamous Trail of Tears of 1838–39, U.S. citizens transferred Cherokee plantations, businesses, and other wealth to their own pockets. Even the U.S. Supreme Court's ruling in the Cherokees' favor was not enough to protect the Amerindians' rights. President Andrew Jackson encouraged the illegal removal and the theft of property that it facilitated.

Those Cherokees who survived relocation ratified another constitution and reassembled their economy, only to have their property redistributed yet again by Washington. In the years since then, the United States, primarily through the Bureau of Indian Affairs, has repeatedly pursued policies that punish American Indian moves toward political self-determination and economic growth. But old ways die hard. Today Amerindian entrepreneurship and political theory are once again reasserting themselves through such disparate avenues as oral history and cyberspace.

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Protecting Individuality

In the modern era, much of the mainstream has fallen prey to the stereotype of the native American as the proto-socialist communitarian whose sense of self was irretrievably anchored in his polity. It is true that the Amerindians valued civic participation, but not for the same reasons as the orators of Western antiquity. The Iroquois and the Cherokees did not value the process of a democratic republic because it consumed their identity; they valued it because it protected their individuality. The political debate from the Cherokee town council to the Iroquois Grand Council limited by law what the group could do to the person. Participation ensured liberty. It was for this reason that Colden explained: "When Life and Liberty came in competition, indeed, I think our Indians have outdone the Romans."[8]

Much of what has been learned of late about Amerindian political theory has been overshadowed by the multicultural debates surrounding history and education. Opponents of multicultural approaches fear that exploration into systems such as the Great Law of Peace will draw credit for the U.S. Constitution away from European antecedents. While few if any scholars claim sole Amerindian influence for the Constitution, Benjamin Franklin's writings on the Albany Plan of Union, Thomas Jefferson's *Notes on the State of Virginia*, and other framers' works make it clear that native American nations did indeed offer some inspiration.[9]

For the student of freedom, however, the idea of liberty in Amerindian thought should remain a worthy inquiry for its own sake. Some of what we find appears familiar to us today: tripartite governments, bills of rights, checks and balances. Other aspects of Amerindian thought—the truly gender-blind polis, the commitment to participation, the encouragement of self-cultivation and self-exploration—should challenge us as we approach the new millennium. The Iroquois and Cherokees of the past and today offer us alternate visions of freedom, other voices to add to our language of liberty. In the words of nineteenth-century theorist Matilda Joslyn Gage, it is fitting that we remember native American thought, for it brought the New World "its first conception of inherent rights, natural equality of condition, and the establishment of a civilized government upon this basis."[10] □

1. Kenneth W. Cameron, ed., *The Works of Samuel Peters of Hebron, Connecticut* (Hartford: Transcendental Books, 1967), pp. 37–38.

2. Ibid.

3. Cadwallader Colden, *History of the Five Indian Nations Depending on the Province of New York in America* (Ithaca: Cornell University Press, 1968 [1727 and 1747]), pp. xvii–xix. Colden would later correspond about the Iroquois with Benjamin Franklin, who pondered the native "confederate republics" while planning his own intercolonial confederation. Donald A Grinde, Jr., and Bruce E. Johansen, *Exemplar of Liberty: Native America and the Evolution of Democracy*, Native American Politics Series No. 3 (Los Angeles: American Indian Studies Center, University of California, 1991), pp. 93–110.

4. Cited in Fred Gearing, *Priests and Warriors: Social Structures for Cherokee Politics in the Eighteenth Century* (memoir 93, AAA, vol. 64, no. 5, part 2, October 1962).

5. Letter from Raymond Demere to W. H. Lyttekton, July 30, 1757. "Indian Books," manuscript collection, vol. 3, William L. McDowell, ed. 1970, Columbia, South Carolina State Archives, pp. 391–92.

6. Some pathbreaking works include Grinde and Johansen, *Exemplar of Liberty*; Bruce E. Johansen, *Forgotten Founders: How the American Indian Helped Shape Democracy* (Cambridge, Mass.: The Harvard Common Press, 1982); Rennard Strickland, *Fire and the Spirits: Cherokee Law from Clan to Court* (Norman, Okla.: University of Oklahoma Press, 1975); John Phillip Reid, *A Law of Blood: The Primitive Law of the Cherokee Nation* (New York: New York University Press, 1971).

7. "An Address 'To The Chiefs of the Cherokee Nation,'" January 10, 1806, in Thomas Jefferson, *The Complete Jefferson*, Saul K. Padover, ed. (New York: Duell, Sloan, and Pearce, Inc., 1943), p. 478.

8. Colden, p. vi.

9. For a discussion of this debate in light of the evidence and charges of "political correctness," see Bruce E. Johansen, *Debating Democracy: Native American Legacy of Freedom* (Santa Fe, N.M.: Clear Light Publishers, 1998).

10. Matilda Joslyn Gage, *Woman, Church, and State* (Watertown, N.Y.: Persephone Press, 1980 [1893]), p. 10, from manuscript.

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THE FREEMAN
Ideas On Liberty

Political Accounting

by James Bovard

Why does the federal government, according to its own auditors, squander tens of billions of tax dollars year after year? Attempts to understand the actions of politicians and bureaucrats on the basis of private-sector decision-making are doomed to failure. Efforts to "fix" government by ending specific boondoggles are quixotic crusades. Government will continue to be profoundly wasteful because that is how politicians maximize their power—a subject that interests politicians far more than do General Accounting Office reports.

"Political language . . . is designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind," observed George Orwell.[1] Ruth Grant wrote that "hypocrisy and politics are inextricably connected on account of the peculiar character of political relationships."[2]

Since government is coercion, politics is largely the exercise of deception regarding the intended use of coercion.

The benevolence of government rarely transcends the venality of politics. Paternalism seeks to generate mass happiness by forcibly sacrificing as many people and groups as necessary to the Greater Good. And who defines the Greater Good? The same people who benefit from maximizing the sacrifices.

The amount of power a politician can seize over other people is inversely related to the politician's honesty. If the politician openly tells people how much more coercive power he seeks and how he intends to use it, there will likely be strong opposition to the expansion of government. Politicians rarely wish to admit that they are pursuing a larger "market share" in the life of the average citizen. Because politicians and government officials often seek more power than they publicly admit, many, if not most, of their analyses of government policies are skewed.

The Social Security Model

If a politician camouflages his plans, people may fail to resist the increased power until it is too late. This is the thumbnail history of Social Security, a program that illustrates the natural combination of paternalism and political fraud. As the Brookings Institution's Martha Derthick observed, "In the mythic construction begun in 1935 and elaborated thereafter on the basis of the payroll tax, Social Security was a vast enterprise of self-help in which government participation was almost incidental."[3] The Social Security Administration for decades told people that their payroll taxes were being held for each citizen in individual accounts; in reality, as soon as the money came in, politicians found ways to spend it.[4]

Social Security Commissioner Stanford Ross, after he announced his resignation, conceded in 1979 that "the mythology of Social

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Security contributed greatly to its success. . . . Strictly speaking, the system was never intended to return to individuals what they paid."[5] Ross said that Americans should forget the "myth" that Social Security is a pension plan and accept it as a tax on workers to provide for the "vulnerable of our society." But Senator Daniel Patrick Moynihan of New York accurately characterized Social Security taxes as "outright thievery" from young working people.[6]

American citizens now shoulder over $17 trillion in unfunded liabilities.[7] The General Accounting Office issued the first comprehensive report on government assets and liabilities in 1998—and curiously left Social Security obligations out of the liability column. A *New York Times* article noted,

> A footnote in a draft portion of the report released Monday notes that after 2029, the Social Security trust fund will be "totally exhausted" and "current tax income will be sufficient to pay approximately 75 percent of the benefits due." But that is not really a liability, the administration's accounting experts explained Monday, because technically the government owes the money to itself, not the pensioners, and because Congress is free to change the amount paid Social Security recipients. After thinking about the political implications of that statement, however, more politically sensitive administration officials called reporters late Monday to stress that the government did not really have plans to cut back on Social Security payments. "It's an accounting device," one official said. "That's all it is."[8]

If the defenders of Social Security insist that the fraud was justified because otherwise the American people would not have accepted the coercive redistribution scheme, the question arises: What future limits should there be on government's prerogative to deceive the people? If Social Security is an acceptable fraud, what would government have to do before it was considered to have gone too far? Social Security is a perfect symbol of political generosity: it robs scores of millions of young people, it halves the national savings rate, and thereby sabotages investment and productivity increases,[9] and it maximizes bureaucratic and political discretion over people's fortunes. If the average worker had a dollar for every time a congressman lied about Social Security, his retirement would be safe. There is no "Honesty in Intervention Act" governing new laws or political action. Current taxpayers are still paying for the lies that politicians told to get re-elected in 1936, 1938, 1940, ad nauseam. The fact that politicians replace old lies with new lies does not reduce the burden on citizens of laws that were enacted on false pretenses generations ago.

Business Accounting versus Government Accounting

Paternalism will always be based on political accounting, which is practically the opposite of private accounting. Businesses prosper by reducing costs, while politicians prosper by denying that costs exist. For politicians, it is more important that spending forecasts be popular than accurate. The more that politicians and bureaucrats underestimate the cost of their favored policies, the easier it becomes to hustle those policies to voters and other legislators. Medicare—one of the largest expansions of government power since the New Deal—steamrolled through Congress in 1965 in part because of a spending forecast that made the expansion of handouts seem easily affordable. By 1990, however, Medicare was costing almost ten times more per year than the 1965 forecast had predicted it would cost.[10]

The political concept of waste is almost diametrically opposed to the economic concept of waste. In economics if an activity produces something that other people value, it can be successful; in politics if a program garners votes, campaign contributions, or power, it is successful. Government programs are often effectively designed to waste money because politicians benefit from an inefficient, spendthrift program as much as or more than they would benefit from an efficient, well-targeted program. Congressmen brag about the amount of federal money spent in their

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districts, not about whether audit reports found minimal fraud.

Political accounting means that government leaders will be ignorant or misled or dishonest about the true cost of policies they impose. The GAO's financial report concluded: "Because of the government's serious systems, record-keeping, documentation, and control deficiencies, amounts reported in the consolidated financial statements and related notes do not provide a reliable source of information for decision-making by the government or the public."[11] GAO found that "significant financial systems weaknesses, problems with fundamental record keeping, incomplete documentation, and weak internal controls . . . prevent the government from accurately reporting a large portion of its assets, liabilities, and costs."[12] Senator Fred Thompson of Tennessee declared, "We are spending almost $2 trillion a year and managing a $850 billion loan portfolio based on erroneous or non-existent information. It means basically that we don't know what the government's assets are, we don't know what the government's liabilities are, we don't know what it costs to run government."[13]

After the audit was released, a senior Clinton administration official told the Associated Press: "This is an old closet that we haven't cleaned out in 200 years."[14] If politicians are going to have the closet cleaned out only once every couple centuries, maybe they have no right to control the house. A report that should have been proof of the political class's incompetence instead merely evokes another round of promises to try harder next time.

Cost Is No Object

Paternalism presumes that government agencies judiciously weigh costs and benefits before extending their power. However, many bureaucracies have little or no curiosity about the impact of agency actions on private citizens. The House Commerce Committee surveyed federal agencies and concluded in a 1997 report, "Where costs [of regulation to private companies] are addressed, they represent only the smallest and most insignificant portion of total costs. . . . With little or no documentation on the costs of regulation, agencies have no basis to judge whether any possible benefits from a new regulation would outweigh the possible costs of the regulation."[15] Because government agencies do not have to pay for the costs they impose, they have no incentive to track the burdens. The committee warned that "federal agencies may inadvertently be exposing our Nation to incalculable economic harms."[16] The only way such government ignorance could not be harmful is if it were true that government dictates are always superior to private decisions.

Efforts to evaluate government programs by private accounting standards are always contrary to how government agencies gauge their own successes. Government agencies measure their achievements by how much they prohibit; private companies gauge their accomplishments by how much they produce. Government bureaucracies brag about the number of fines they have imposed; private companies brag about the number of inventions they have created. Government bureaucrats pride themselves on forcing private citizens to obey orders; private companies pride themselves on discovering ways that help each person find his own path.

Governments do not squander money in a vacuum. The more of an economy that is subject to political command and control, the greater the opportunities and prosperity forgone. Wasteful government spending crowds out productive private investment; as a result, the entire society becomes increasingly impoverished compared to what people could have achieved.

The supposed benefits of the tradeoff between freedom and political control is based almost entirely on the bogus premise that politicians will provide more welfare (after seizing increased power over everyone else) than private citizens can generate through their voluntary agreements and hard work. A 1998 report by economist James Gwartney and colleagues for the congressional Joint Economic Committee found that since 1960, average government expenditures for the 23 major industrial countries had risen from 27 percent of GDP to 48 percent of GDP in 1996—while the average economic growth rate "fell from

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5.5% in the 1960s to 1.9% in the 1990s." Gwartney observed: "While growth has declined in all [23] countries, those countries with the least growth of government have suffered the least."[17] Gwartney concluded: "If government expenditures as a share of GDP in the United States had remained at their 1960 level, real GDP in 1996 would have been $9.16 trillion instead of $7.64 trillion, and the average income for a family of four would have been $23,440 higher."

Squandering Lives

The failure of a government policy does not merely reduce the number of bureaucrats who receive "outstanding achievement" job evaluations. Governments cannot waste tax dollars without squandering part of the lives of the people who earned those dollars. There are human costs to every government snafu. A billion tax dollars wasted pre-empts 10,000 families from buying starter homes, or pre-empts 100,000 people from buying bottom-of-the-line new cars, or pre-empts a million people from taking a summer vacation, or pre-empts citizens from buying 40 million new books or 80 million cases of beer.

The value of liberty and personal independence is almost never factored into the calculus of paternalism. Social scientists, politicians, and bureaucrats consider the expected benefits of any proposed new rule and ignore the effect of its forcible imposition. Every government program, every government intervention, every government penalty carries a hidden cost of pre-emption. The fact that people prefer to live as they choose and not as others command never shows up on intellectual radar screens. If the costs do not show up in the official government budget, they do not officially exist. Any government cost-benefit analysis of a proposed new rule or regulation that disregards the value of individual freedom implicitly assumes that private freedom is a good at the disposal of the political class.

Since most politicians—simply by their career choice—indicate a desire for power, any measure that increases power will be considered a success. If a policy increases the number of people beholden to them, then it is good as an end in itself. The ultimate conflict of interest that subverts paternalism is that government officials want power and citizens want freedom.

There is no reason to expect contemporary Leviathans to become significantly more efficient in the future. The only way to fix most government programs is to repeal the underlying law and abolish the government agency. Anything less will be little more than a future full-employment program for investigative journalists. □

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5. "Outgoing Social Security Head Assails 'Myths' of System and Says It Favors the Poor," *New York Times*, December 2, 1979.
6. Pat Wechsler, "Will Social Security Be There for You?" *Newsday*, January 14, 1990.
7. Daniel J. Mitchell and Gareth G. Davis, "Social Security Trust Fund Report Shows Need for Reform," Heritage Foundation Backgrounder #1176, May 4, 1998.
8. David Sanger, "Glitches Galore Pop Up in Full Audit of Government," *New York Times*, March 31, 1998.
9. Martin Feldstein, "Economics: His Defense," *New York Times*, October 5, 1980.
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12. James Glassman, "No-Account Government," *Washington Post*, April 21, 1998.
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17. "On average, government expenditures in 1995 consumed only 20% of GDP in the five economies with the most rapid real economic growth rates during 1980–95: Hong Kong, Singapore, South Korea, Taiwan and Thailand. In these countries, the size of government in 1995 was virtually the same as in 1975." James Gwartney, "Less Government, More Growth," *Wall Street Journal*, April 10, 1998.

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Economics

Speculation and Risk

Last month I showed that speculators are best thought of as conservationists. They are constantly looking to the future and conserving resources they believe are becoming more valuable. Since no one can predict the future with full confidence, speculators necessarily take risks. And when a speculator misjudges the future, he moves resources from periods when they are worth more to periods when they are worth less. But speculators who consistently make mistakes are soon left without the finances to continue speculating, and their mistakes create profitable opportunities for better prognosticators to take corrective action.

Recall last month's advice not to complain out loud about the mistakes that you think speculators are making. If your criticism is correct, you can make a fortune by not sharing your information and entering the market yourself. You will increase the value realized from our scarce resources. If you are wrong, however, you can lose lots of money. Again, speculation is risky.

Many people disapprove of speculative markets because of the risk associated with them. They believe these markets are little more than gambling havens on par with Las Vegas and Atlantic City casinos. The critics fear that allowing speculative markets to proliferate, as they have in recent years (allowing people to speculate on such things as foreign currencies and the rate of inflation, as well as on resources such as petroleum and agricultural products), creates harmful levels of risk in society. Wrong! There is a fundamental difference between the risks in Las Vegas casinos and the risks in speculative markets.

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Craps versus Crops

A crucial difference between the risk of playing craps and the risk of speculating on the price of wheat is that the game of craps creates a risk that otherwise would not have existed. Creating risk for the enjoyment of people who like to take chances is the purpose of gambling games. Of course, some people also enjoy the risks of "betting" on the future price of wheat in speculative markets. But speculative markets do not create risks. The risks associated with speculative markets are inherent in the act of growing crops and are necessarily borne by someone. If speculative markets were outlawed, farmers would have to take the risk of "betting" that the cost of planting a crop today is less than the unknown "payoff" from selling it at harvest. Only those who hate gambling more than they love eating should criticize the risks associated with speculative markets. Actually speculative markets lower the cost of unavoidable risks.

Consider the farmer who invests most of his wealth in planting wheat each spring. Taking a risk on the future price of wheat is extremely costly for him. He could win, of course, if the price of wheat is higher than expected. But the price might plummet, in

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which case he could lose everything. Even enthusiastic gamblers are reluctant to put their life savings on one roll of the dice. Thus our farmer would like to eliminate the risk of declining wheat prices so he can concentrate on growing wheat, which is risky enough. And that is exactly what he can do in the speculative (futures) market for wheat. In the spring he can arrange to sell his harvest for the fall price that currently prevails in the futures market for the type of wheat he is growing. The farmer eliminates the risk he faces from declining prices by locking in his sales price.

This doesn't eliminate the risk of price declines. The farmer has simply passed that risk on to those who agreed to pay the specified future price. If the price of wheat increases above that price, the buyers of the futures win; but if it falls below that price, they lose. This is not just a game of "hot potato" in which the cost of holding the risk is the same no matter who holds it. Those who accept the price risk have a lower cost associated with that risk than the farmer does; maybe they are less averse to risk. Also, the farmer passes the risk to many people, each of whom takes just the amount he wants. Finally, those accepting the risk can diversify, agreeing to buy many different products. Because of speculative markets, the "hot potato" of risk ends up in the hands of those with the thickest gloves.

In some cases, speculative markets allow risk to be eliminated almost entirely. In fact, the term "speculative market" can be a misnomer, since parties on both sides of the market often use them to avoid speculating. Those who agree to pay a wheat farmer a specified future price for his harvest may do so to avoid speculating in wheat prices themselves. Consider bakers whose profits are reduced if the price of their primary ingredient, wheat, increases in the future. The risk bakers want to avoid (wheat prices going up) is exactly opposite to the one wheat farmers want to avoid (wheat prices going down). So farmers and bakers can eliminate the risk they fear most by using "speculative" markets to agree now to a specified price in the future. The risk of fluctuating wheat prices isn't eliminated—the farmer risks losing the gain from rising prices and the baker risks losing the gain from declining prices. But the degree of risk has been greatly reduced for both.

Derivatives Don't Cause Risk

Agreements to buy and sell agricultural products at specified future prices are made with futures contracts. These contracts are traded on markets, and their prices fluctuate over time with changes in the expected prices of the products. So the value of each of these futures contracts is derived from the value of something else. Any contract whose value is derived from something else is called a derivative. Derivatives have proliferated in recent years, allowing people to speculate on the future prices of a wide range of things (including interest rates). Unfortunately derivatives are widely blamed for the risks that have resulted in a few large losses suffered by businesses and governments that speculated in them. This criticism reverses cause and effect. Increased risk caused the derivative, not the other way around. The increase in the numbers and types of derivatives was the predictable response to the increased risks caused by such things as the uncertain value of the dollar due to the inflation of the 1970s and '80s, the volatility of prices of resources such as oil, and the move to floating exchange rates for foreign currencies. These risks were not caused by derivatives. Derivatives emerged as a way of reducing risks in the same way farmers and bakers reduce the cost of fluctuating wheat prices with futures contracts.

Blaming risks on derivatives is as silly as blaming diseases on doctors. □

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THE FREEMAN
Ideas On Liberty

Bad Investment

by Deroy Murdock

In his State of the Union address, President Clinton proposed to invest some $700 billion of the Social Security Trust Fund in corporate equities through 2014. Give the President credit for finally conceding that the largest federal program generates returns that would cost a Wall Street money manager his job. However, Clinton's scheme to make Uncle Sam the biggest trader on Wall Street is riddled with economic and political perils.

True, pumping public pension money into stocks promises better returns than do Special Issue Treasury Notes, the non-marketable IOUs that accumulate as Washington spends today's FICA taxes on foreign aid, food stamps, and more. However, individuals who invest their assets privately tend to see them outperform those supervised by government functionaries. Unlike private portfolio managers—who legally must maximize returns for future retirees—public pension administrators often pursue other agendas. Many strive for "collateral benefits," as former Labor Secretary Robert Reich endearingly calls them, such as "affordable housing, infrastructure improvements and jobs."

According to Marquette University finance professor John R. Nofsinger, these "economically targeted investments" (or ETIs) typically reduce average annual yields by 1.5 percentage points below their expected returns. Alicia Munnell, a former Clinton Treasury official, discovered that the returns from pension investments funneled into home-ownership programs fell between 1.9 and 2.4 percentage points annually. With compounding, such seemingly small gaps swell into wide gulfs between the retirement incomes of workers who control their assets and those whose futures are left to bureaucrats.

Bigger Menace

But the menace of government equity ownership goes beyond rates of return. President Clinton's desire for a Social Security portfolio "free from politics" is fanciful at best, another lie at worst. In a January 28 Senate Budget Committee appearance, Federal Reserve Chairman Alan Greenspan hosed down this idea with ice water. Federal investment of FICA funds, Greenspan said, "would arguably put at risk the efficiency of our capital markets, and thus our economy." He also was metaphysically skeptical of politically neutral government investment: "Even with Herculean efforts, I doubt if it would be feasible to insulate, over the long run, the trust funds from political pressure—direct and indirect—to allocate capital to less than its most productive use."

Social Security's cheerleaders call privatizers paranoid for imagining that the Clinton administration might, for instance, liquidate Microsoft and Philip Morris shares to express solidarity with Macintosh users and non-

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smokers. But the privatizers reply that politically driven public investment is all too common in cities and state. These include assets "targeted" at local economic development, as well as politically correct investment decisions that promote pet causes. Some officials simply have misallocated pension funds. Add to this mix the usual graft and corruption that make government itself such a dreary proposition.

State efforts to steer pension assets into local economic activity have imploded as if they were abandoned public-housing projects. In recent years, according to Heritage Foundation analyst Daniel Mitchell, the Kansas Public Employees' Retirement System lost $65 million in the Kansas-based Home Savings Association, $14 million in Tallgrass Technologies, and about $8 million in a local steel mill. With at least $138 million in losses, this economic targeting missed the bull's-eye by miles.

In 1988 the Missouri State Employees Retirement System launched a venture-capital fund to lure companies to the Show-Me State. Three years and two lawsuits later, the failed fund was shown the door. In 1990, the State of Connecticut Trust Fund spent $25 million for a 47 percent stake in Colt Industries, a local gun maker. In 1993, Colt misfired, and the money vanished.

According to the Cato Institute's Michael Tanner, 42 percent of state, county, and local pension fund systems currently practice this kind of cronyism. Such ETIs, Yale law professor Roberta Romano reports, generated $28 billion in losses between 1985 and 1989.

Politically Correct Investment

As if incompetent investment were not enough, public portfolios also are battered by politically correct decision-making. Public equity ownership became a white-hot political potato during the divestment movement of the mid-1980s. At least 30 states and many more cities and public universities ditched their shares in companies that conducted business in apartheid-era South Africa. (Perhaps in the name of equal opportunity, 11 states also curbed investments in firms that violated the "MacBride Principles" governing commerce in Northern Ireland.)

Tobacco, of course, is a smoldering bugaboo for public pension managers. Minnesota lost $2 million last year when its employees' fund dumped its tobacco holdings. Some public managers have done more than simply wash the tobacco stains off their hands. On April 10, 1998, New York State Comptroller Carl McCall said he would withhold his support from the boards of Philip Morris, RJR Nabisco, and Loew's at shareholders' meetings if they did not "reach a prompt settlement that effectively reduces youth smoking and ends the lingering controversy. . . . It is not in the best interest of the tobacco companies to just stop talking to Congress." New York's state pension fund then owned 11 million shares of those firms' equities worth some $450 million.

Conservative activists have joined in the fun, too. The American Family Association of Texas sent the State Board of Education taped highlights of recent films distributed by Miramax, a Walt Disney subsidiary, including the violent hit *Pulp Fiction*. On July 9, 1998, the board decided to sell the $46.4 million of Disney stock in its Permanent School Fund. "It's not Mickey Mouse and Donald Duck anymore," board member Richard Neill said at the time. "It's blowing people's heads off."

Political pressure needn't be applied to be effective. Like a cocked gun that is never discharged, the mere threat of a politically inspired investment decision can advance desired outcomes. When politicians snarl, executives dive beneath their desks.

On July 2, 1998, Carl McCall and New York City Comptroller Alan Hevesi threatened to exclude Swiss banks and financial advisers from managing municipal pension funds and other state assets. McCall and Hevesi wanted the Swiss to settle a lawsuit with Jewish groups involved in the Holocaust-era dormant accounts controversy. The Swiss banks caved in like chocolate soufflés. "The first set of measures was supposed to begin September 1," a Swiss source close to the talks told me. "That boycott schedule had an impact on the speed of the negotiations, without a doubt." The final deal was unveiled

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August 12, 1998, just five weeks after McCall and Hevesi huffed and puffed.

Squandered Assets

While Congress routinely squanders tomorrow's Social Security assets on today's goodies, state and local officials have learned from the big boys. In 1997 California's Supreme Court let stand a lower court ruling that Sacramento had violated public employees' rights. Then-Governor Pete Wilson and the state legislature diverted $1.36 billion in pension contributions to balance the state budget in fiscal years 1993 and 1994. New York State similarly siphoned $230 million from its employees' retirement fund in 1995. In the summer of 1998, Chicago authorities used $12.5 million in pension contributions for interest payments on a $175 million infrastructure bond issue.

Can anyone trust Congress and the White House not to use a federal pension portfolio to balance future budgets? This $700 billion honey pot also will attract lobbyists and PAC men like grizzly bears. This would be a golden opportunity for presidents and congressmen to sell "access" to Wall Street firms—one banquet table at a time.

Free-marketeers should be frightened by those who already are licking their chops over what could become government's biggest chow-down yet. Savoring this potential federal feast, Representative Jerrold Nadler told *The Village Voice*: "You're saying the government will have more influence to pressure for more decent, socially responsible corporate behavior. That's terrible?" The AFL-CIO's Gerald Shea predicts federal investment will "have a good effect on how corporate America operates." That depends on what your definition of "good" is. □

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THE FREEMAN
Ideas On Liberty
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"They Were Right"

"Americans need to know the history of American anticommunism if they are to understand the great role they have played in ridding the world of the most murderous of the twentieth century totalitarians."

—RICHARD GID POWERS[1]

On October 16, 1961, thousands of people packed the Hollywood Bowl. The occasion was not a rock concert or a sporting event but the biggest anticommunist rally in the country. "Hollywood's Answer to Communism" was carried on nationwide television. Actor George Murphy was the master of ceremonies and other speakers included Herb Philbrick, Congressman Walter Judd, Dr. Fred Schwarz, Senator Thomas Dodd, and my uncle, W. Cleon Skousen, a former special assistant to J. Edgar Hoover and author of the bestseller *The Naked Communist*.

I was in my early teens when the anticommunist movement was at its zenith and remember seeing my uncle on TV. I watched shows like *I Led Three Lives* and read books like John Stormer's *None Dare Call It Treason*, J. Edgar Hoover's *Masters of Deceit*, and Whittaker Chambers's *Witness*.

But despite this groundswell of concern over the threat of communism, communist sympathizers at high levels combined with media forces to ridicule and vilify patriotic conservatives. Most historians deplored the anticommunist movement of the 1950s and 1960s as "extremist," "paranoid," "right-wing" hysteria. Accordingly, there was little credence given to this alleged vast communist conspiracy; reaction went rarely beyond references to McCarthyism, redbaiting, and blacklisting. They challenged the anticommunists' claims that the Soviets had planted numerous agents in government, that Stalin had infiltrated the film industry as a means of promoting communist propaganda, that the Communist Party USA was a pawn of Moscow, and that the Soviet Union was a serious military threat.

They depicted the anticommunist era as an unwarranted "witch hunt" against liberal progressives and idealistic movie stars and a groundless attack on patriotic government officials who they say were falsely accused of espionage. They carried on a 40-year campaign to prove Alger Hiss and Julius and Ethel Rosenberg innocent. My uncle's book so angered members of the political science and history departments at Brigham Young University that Richard D. Poll, a history professor, wrote a scathing critique of his "extremist" views on Karl Marx and communism.

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Mises and Socialism

In those days, the economics profession also cast doubt on free-market criticisms of socialism and the Soviet economy. Half a century earlier, Ludwig von Mises and F. A. Hayek were lone voices in charging that socialist central planning could not work. According to conventional wisdom, Mises and Hayek had lost the debate with the socialists in the 1930s, and in 1985 Paul Samuelson reported in his popular textbook that the Soviet Union had grown faster than any other industrial economy since the 1920s. As late as 1989, Samuelson claimed that "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive."[2]

But then, following the collapse of the Berlin Wall and Soviet communism in 1989–90, economist Robert Heilbroner shocked his colleagues in the socialist world by boldly declaring that the long-standing debate between capitalism and socialism was over. "Capitalism has won," he confessed. "Socialism has been a great tragedy this century." Furthermore, Heilbroner was forced to change his mind about Mises and the debate over socialism. Following the unexpected collapse of communism, Heilbroner admitted, "It turns out, of course, that Mises was right."[3] And it wasn't long before Paul Samuelson did an about-face in his textbook, labeling Soviet central planning "the failed model."

Revelations from the Soviet Archives

The fall of the Soviet Union brought about another dramatic outcome that would have far-reaching effects on modern history. The Russian government opened up thousands of secret KGB files in Moscow, revealing what one historian called "stunning revelations" about espionage and the Soviet economy under Stalin. This new information has sparked a harsh reevaluation of the anticommunist movement by historians and the media. As one reviewer put it, "It's like looking into the new edition of a book from which half the pages had previously been torn out."[4]

The KGB files prove beyond doubt that Alger Hiss, the Rosenbergs, and numerous other Americans accused of spying for the Soviets were guilty. They confirm what J. Edgar Hoover and the House Un-American Activities Committee were saying all along: that spies reached the highest levels of the State and Treasury departments, the White House, and the Manhattan Project, and that the Communist Party USA (which had 50,000 members in World War II) got its marching orders from Moscow.[5]

Stalin's Economic Disaster

Based on research at the Soviet archives, historian Sheila Fitzpatrick has written a pioneering account of everyday Russian life in the 1930s: "With the abolition of the market, shortages of food, clothing, and all kinds of consumer goods became endemic. As peasants fled the collectivized villages, major cities were soon in the grip of an acute housing crisis, with families jammed for decades in tiny single rooms in communal apartments. . . . It was a world of privation, overcrowding, endless queues, and broken families, in which the regime's promises of future socialist abundance rang hollow. . . . Government bureaucracy often turned everyday life into a nightmare."[6] What a sharp contrast to Samuelson's glowing account of the Soviet economy.

After writing three books on the Soviet archives, historians John Earl Haynes and Harvey Klehr summed it up this way about the anticommunists: "They were right."

And being right, they deserve our praise and gratitude. □

1. Richard Gid Powers, *Not Without Honor: The History of American Anticommunism* (New York: Free Press, 1995), p. 428.
2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 13th ed. (New York: McGraw-Hill, 1989), p. 837.
3. Robert Heilbroner, "Reflections After Communism," *The New Yorker*, September 10, 1990, and "The Triumph of Capitalism," *The New Yorker*, January 23, 1989.
4. Joseph E. Persico, "The Kremlin Connection," review of *The Haunted Wood: Soviet Espionage in America*, by Allen Weinstein and Alexander Vassiliev, *New York Times Book Review*, January 3, 1999.
5. Several books have been published detailing new findings from the Russian archives, including John Earl Haynes and Harvey Klehr's *Venona: Decoding Soviet Espionage in America* (New Haven: Yale University Press, 1999) and *The Soviet World of American Communism* (New Haven: Yale, 1998).
6. Sheila Fitzpatrick, *Everyday Stalinism* (Oxford University Press, 1999), flyleaf.

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BOOKS

Keeping the People's Liberties

by John J. Dinan

University Press of Kansas • 1998 • 259 pages • $35.00

Reviewed by George C. Leef

The title of this work comes from a 1792 essay by James Madison, "Who Are the Best Keepers of the People's Liberties?" How best to secure the rights of people was a question that bore heavily on the founders and still bears heavily on us today. Wake Forest University professor John Dinan examines the success—and lack thereof—of three different political regimes in their ability to "secure the rights" of citizens. The book is a valuable historical investigation, but is sadly disappointing in that it fails to give much help to those who search for political arrangements that will really *secure* our rights and not trample on them.

The first of the regimes Dinan examines is republicanism, that is, a system of elected representatives. The author finds that in the early days of the nation it was widely believed that elected representatives were best suited to the job of protecting the rights of the people. "[O]f the various public officials who might be charged with this responsibility," Dinan writes, "legislators were thought to be most capable of representing the popular understanding of rights; legislative assemblies were considered the proper forum for deliberating about the content of rights; and statutes were seen as providing the most effective means of securing their protection." Neither judges nor the general public were widely looked to as protectors of rights.

How well did republican institutions protect rights? Not too badly, Dinan concludes. Studying a limited number of state legislatures (principally Massachusetts, Virginia, Michigan, and Oregon), he shows that there were some signal successes achieved through legislation—for instance, freedom from ministerial taxes. Dating back to the seventeenth century in both Massachusetts and Virginia, taxes had been levied for the support of the official church. The battle to liberate people from such taxes was won in the legislatures, with the courts fighting a rearguard action on behalf of the vested interests that wanted the taxes to continue.

Another intriguing case Dinan presents is the controversy over protecting citizens against unlawful searches and seizures. Today we think of such protection as a judicial function of relatively recent origin, but that is far from the case. In the nineteenth century the problem of illegitimate searches and seizures by police and officials was much on the minds of the people, and the legislatures acted. The legislative remedy was to make public officials liable for wrongful invasions of individual liberty and property. It was not until the mid-twentieth century that the courts entered the scene with the controversial exclusionary rule, which forbids the use of evidence obtained illegally.

In the latter half of the nineteenth century, a growing dissatisfaction and impatience with legislatures led to the rise of the populist movement. The populists argued that legislatures were too beholden to special-interest groups and their own interest in re-election to do a good job of securing the rights of the people. Accordingly, many advocated popular initiatives and referenda as a means of bypassing or overriding the legislature.

In some instances, it worked. In 1921 a statute in Massachusetts established a censorship board to license movies that did not contain "indecent" material. The people promptly repealed the law by referendum in 1922.

The problem with populism is that it can result and frequently has resulted in laws that are incompatible with any respectable theory of rights. Dinan reports that when the Oregon legislature declined to enact a workmen's compensation system, "the people resorted to the initiative process to secure their rights." Compelling employers to obey a government edict on the treatment of injured workers is not a matter of "securing rights," however. It is a matter of one group's using the power of the state to get what it wants, overriding the

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freedom of others. This is a repeated failing in the book: Dinan does not distinguish between true rights and governmentally decreed pseudo-rights.

Finally, Dinan looks at judicial protection of rights. This is also a mixed bag. Sometimes courts have struck down laws that interfered with rights, as in the "substantive due process" decisions of the pre-New Deal Supreme Court. On the other hand, courts have often been guilty of infringing rights in their quest for "fairness." The Oregon Supreme Court ruled that shopping malls were required to allow people to solicit petition signatures. This, of course, is not "securing a right," but rather violating the rights of mall owners.

Dinan tamely concludes that his analysis "suggests that an ideal regime of rights protection would combine the advantages of each of these institutions." Given the sorry record of all three, one might better conclude that all political institutions are dangerous to and have permitted a steady erosion of the people's liberties. □

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The Structure of Liberty: Justice and the Rule of Law

by Randy E. Barnett

Oxford University Press • 1998 • 368 pages • $29.95

Reviewed by Bruce L. Benson

In *The Structure of Liberty*, Boston University law professor Randy Barnett identifies the fundamental problems that must be recognized in order to create a proper foundation for society: the problems of knowledge, interest, and power. Those problems arise because both physical resources and human abilities are scarce, because altruism is limited, and because humans are vulnerable. They mean that individual conduct must be constrained in some ways or else society will collapse.

But just as "good" buildings require different floor plans depending on their purpose, the structure of a "good" society also depends on the objectives of the society's occupants. Barnett attempts to describe the structure of a society that will allow "each person to pursue [his subjectively determined perception of] happiness, peace, and prosperity while acting in close proximity to others." Such a society requires justice and the rule of law, as the subtitle of the book suggests, so Barnett focuses on the necessary components of the structure of liberty in the face of the problems of knowledge, interest, and power. The result is an insightful, often brilliant presentation that deserves serious attention from those of us who share this vision of the good society.

Barnett is not attempting here to convince modern liberals or modern conservatives to become classical liberals or libertarians. Instead, he is writing to classical liberals and libertarians who already share his vision in an effort to show them what the structure of liberty requires. Convincing people that particular laws or policies are undesirable will have little long-term benefit if we do not have institutions of governance that sustain better rules and policies. Barnett argues that those institutions must be structured to handle the problems of knowledge, interest, and power.

Other political philosophers, of course, have wrestled with the problem of structuring liberty, but most who have preceded Barnett have not focused adequately on power. By bringing all three problems into the analysis Barnett is able to offer new insights regarding the kinds of institutions that are likely to produce justice and the rule of law in support of liberty. He questions some widely accepted principles of governance long cherished by classical liberals and proposes replacements.

Perhaps the best examples of this are in chapters 12 and 13, where Barnett turns to the problem of enforcement abuse and the nature of effective constitutional restraints on power. He challenges the argument by John Locke and other classical liberals who contend that a coercive monopoly of power is necessary to handle the problem of enforcement abuse. The "single power principle" has led classical liberals to focus on designing constitutional rules to shackle the monopoly in various

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ways. Barnett explains that the single power principle is itself a primary source of abuse and that the rule of law is not likely to be maintained even with such constraints as periodic elections and checks and balances.

Furthermore, the single power principle is inconsistent with other liberal tenets. For instance, as Barnett explains, "Some think that law enforcement and adjudication are so important that we must make an exception to the background right of freedom of contract and permit a coercive monopoly to provide such services. . . . [But] the more vital a good or service is, the more dangerous it is to let it be produced by a coercive monopoly."

Barnett also points out that the reality of Western legal tradition is one of polycentric law, not monopolized law, and the competition between legal jurisdictions is actually the source of much of what is good about our modern legal system (many aspects of which are being undermined by increasing centralization of law). The rule of law, he argues, actually requires a polycentric constitutional order.

A brief review cannot possibly do justice to Barnett's analysis. The two chapters devoted to the importance of the rule of law are truly outstanding, but I would not hesitate to say the same about many other of his arguments. This book makes an important contribution toward a more complete understanding of the structure that must underlie a society in which individuals can live in peace and prosperity. I strongly recommend *The Structure of Liberty* to anyone who seeks such a society. □

Bruce Benson is DeVoe Moore Distinguished Research Professor at Florida State University.

The Lost Literature of Socialism

by George Watson

The Lutterworth Press • 1998 • 144 pages
• $50.00 cloth; $30.00 paperback

Reviewed by Antony Flew

The literature of socialism is lost only in the sense of not having been read for a very long time. George Watson has been re-reading this literature as a professional literary critic, with strong interests in both political affairs and the history of ideas. Many of his findings are astonishing. Perhaps for readers today the most astonishing of all is that "In the European century that began in the 1840s, from Engels' article of 1849 down to the death of Hitler, everyone who advocated genocide called himself a socialist and no conservative, liberal, anarchist or independent did anything of the kind." (The term "genocide" in Watson's usage is not confined to the extermination only of races or of ethnic groups, but embraces also the liquidation of such other complete human categories as "enemies of the people" and "the Kulaks as a class.")

Although Watson himself unfortunately never defines the key word "socialism," he is apparently following throughout the usage of the old British Labour Party. From its foundation, it proclaimed itself a socialist party and stated its aim in Clause IV of its constitution—thereafter printed on every membership card—as being "the public ownership of all the means of production, distribution and exchange."

Watson distinguishes three periods in the history of this socialist idea. The first, the Age of Conception, runs from the 1840s to the Bolshevik coup of 1917; the second, the Age of Fulfilment, continues until the Communist seizure of power in China in 1949; the third, the Age of Decline, continues until the fall of the Berlin Wall in 1989.

During the Age of Conception, many were attracted to socialism precisely because they already saw it as what Watson calls a "Tory project," a project necessarily involving rule by an irresponsible elite. Some of these elitists, such as the science fiction writer H.G. Wells and the dramatist Bernard Shaw, lived long enough into the Age of Fulfilment to welcome this aspect of the realization in the USSR of the socialist vision. Before World War I, other socialists, such as the novelist Jack London and the psychologist Havelock Ellis, saw socialism as leading both fortunately and necessarily to the triumph of the white races over the black and the brown.

For those of us born before World War II, the most interesting section of the book is that

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dealing with the intellectual relations between the teachings of Adolf Hitler and those of Marx and his professed followers among Hitler's contemporaries. In his autobiography, and in recorded conversations with intimates among his own followers, Hitler said such things as, "I have learned a great deal from Marxism, as I do not hesitate to admit," that "the whole of National Socialism is based on Marx," and that without racist commitments his own political movement "would really do nothing more than compete with Marxism on its own ground."

Hitler was not in these statements saying that he either was or ever had been a Marxist. From his first political activity, he had always been opposed to communism, but that was not because it was socialist, but because it was internationalist. Hitler, although born and raised in Austria, had always been a dedicated German nationalist.

Even those who are aware that Hitler's party was the *National Socialist German Workers' Party* have doubted the sincerity of its socialist professions. This is in part because Hitler, upon coming to power, refrained for tactical reasons from launching an immediate and extensive program of state takeovers of private industries, and in part because these skeptics have not enjoyed the benefits of Watson's re-readings of the lost literature of socialism.

His chapter on "Marx and the Holocaust" begins by telling us that Rudolf Hoess, commandant of the infamous Auschwitz death camp, recalled in his memoirs that even at the height of the Nazi-Soviet war of 1941-45, his colleagues had respected the socialist example of an exterminatory program based on forced labor. Watson then proceeds to deploy further evidence of Soviet influence on the Nazis and to cite other relevant passages from the works of Marx, Engels, Lenin, and other socialist luminaries, all presenting candidates for or possible methods of genocide. The connection between socialism and genocide could hardly be made any clearer.

From all this, Watson concludes that "it is becoming ever more probable that it was not just the idea of genocide that the Nazis owed to Marx and the Marxists, but its detailed practice too, not excluding camps and gas chambers. The shadow of the socialist idea grows longer and longer." □

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Freedom to Trade:
Refuting the New Protectionism
edited by Edward L. Hudgins
Cato Institute • 1997 • 88 pages • $10.00 paperback

Reviewed by Charles K. Rowley

Free trade against protectionism is one of those few issues over which economists have reached consensus. Free trade attracts the vote of the very large majority of economists, whereas protectionism typically attracts the support only of those who are paid mouthpieces for the special interests. Yet this remarkable consensus belies the facts of the international trade reality. The guns of the economists, like the French guns of the Maginot Line, appear to point in the wrong direction. International trade is highly regulated; and protectionism dominates free trade despite the cogent economic arguments against it.

The book under review represents a sterling effort to carry the case for free trade forward to the general public in language stripped of the jargon of economics. It is written well and cogently argued. Chapter one, written by Edward Hudgins, director of regulatory studies at the Cato Institute, focuses attention on the fundamental freedom to trade, correctly stressing that the *individual* trades and not the *nation*. Although the concept of comparative advantage strangely is never mentioned, the classical case for unilateral free trade is outlined, briefly but accurately, both in terms of static specialization and in terms of dynamic market discovery criteria.

The second chapter, written by Bruce Bartlett, briefly reviews the trade history of the Netherlands, Great Britain, the United States, Japan, and Germany, and succinctly demonstrates the close correlation between periods of relative free trade and periods of

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relative prosperity in each of these nations. The aim of this chapter is to show that generally nations rise to power and wealth through free trade and decline when protectionism takes over. In my opinion this case holds least well for the United States, whose dramatic advance between 1875 and 1900 coincided with Republican high-tariff policies justified by infant-industry rhetoric. Of course, it is the elementary *post hoc ergo propter hoc* logical fallacy to conclude, as some do, that protectionist tariffs were the cause of our economic growth. It is also questionable whether rising German economic power between 1871 and 1939 was based on free trade policies. It is always satisfying when the facts fit our predilections; equally, however, it is unwise to force the fit.

Chapter three, written by Hudgins, attempts to refute the myth of the "race to the bottom," which charges that U.S. free trade policies result in a loss of jobs to other countries and in declining real wages in the United States. Using simple charts to excellent effect, Hudgins makes a strong case that recent job creation in the United States has far surpassed that of its major international rivals and that real wages in the United States, correctly measured, have increased at approximately the same rate as underlying productivity. Hudgins also fingers the explosive growth of government in the United States over the past three decades as the major single factor depressing productivity and obstructing the growth in real wages. Undoubtedly, this is the best chapter in the book, and one that should be read by any intelligent adherent to the intellectually confused trade policies of Ross Perot and Pat Buchanan.

The next chapter, also written by Hudgins, changes direction into a surprisingly vigorous defense of recent trade treaties entered into by the United States, arguing that they do not infringe national sovereignty. I have no dispute with the author in this judgment. However, I contest his view that certain of these treaties are supportive of free trade. In particular, the regional trade agreements, epitomized by NAFTA, divert U.S. attention away from genuinely multilateral trade agreements; for example, excessive attention to NAFTA almost aborted the Uruguay Round. They also provide a regulatory conduit through which the forces of protection obstruct the flow of imports into the United States. The post-Uruguay shift from the informal General Agreement on Tariffs and Trade to the much more bureaucratic World Trade Organization as an enforcement agency is also not a change with which genuine free traders should be enamored.

Among the remaining essays, the best is chapter eight, written by James Dorn, providing a compelling analysis of the relationship between trade and human rights based upon a study of the People's Republic of China over the period 1978 to 1997. Dorn makes an eloquent case in favor of keeping trade open between the United States and China as a basis for promoting liberty in the latter country. This is a refreshing change from the self-serving arguments in favor of such open markets typically advanced by U.S. export interests.

Edited volumes typically suffer from unevenness of quality and lack of cohesiveness. This monograph, despite its brevity, is no exception. In addition, the monograph is weak in its use of public-choice analysis, which is unfortunate since public choice goes far to explain why the guns of the Maginot Line indeed point in the wrong direction.

Nevertheless, I recommend this book to anyone who is eagerly searching for a short volume capable of explaining in nontechnical language the case for free trade and the arguments against trade protection. □

Charles Rowley is a professor of economics at George Mason University and general director of the Locke Institute.

The Roosevelt Myth

by John T. Flynn

Fox & Wilkes • 1998 • 437 pages • $24.95 cloth; $14.95 paperback

Reviewed by Lawrence W. Reed

For every thousand books written, perhaps one may come to enjoy the appellation

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"classic." That label is reserved for a book that through the force of its originality and thoroughness, shifts paradigms and serves as a timeless, indispensable source of insight.

Such a book is *The Roosevelt Myth* by John T. Flynn. First published in 1948, Flynn's definitive analysis of America's 32nd president was reissued last year in a 50th anniversary edition by Fox & Wilkes, with a new foreword by Ralph Raico. It is the best and most thoroughly documented chronicle of the person and politics of Franklin Delano Roosevelt.

John T. Flynn was a successful and influential journalist with a reputation for candor and first-rate research. He was neither a shill for Big Government nor a puppet of Big Business. He railed against both when they conspired to undermine the Constitution, erode our freedoms, or suck the nation into foreign entanglements. He saw right through the public relations job depicting FDR as a valiant crusader for noble causes.

Was FDR a man of principles, a man guided in his thinking by a fixed set of lofty and noncontradictory ideas? Far from it, Flynn proves, in what is an important theme of the book. FDR's thinking and behavior show him to be a real-life exemplar of an old Groucho Marx wisecrack: "Those are my principles. If you don't like them, I have others!"

Running against Herbert Hoover in 1932, Roosevelt campaigned as an advocate of limited government, even (correctly) accusing Hoover of "reckless and extravagant spending" and of thinking "that we ought to center control of everything in Washington as rapidly as possible." After being elected, however, FDR promptly championed reckless and extravagant spending and tried to centralize just about everything in Washington. He did so not because he had become a scholarly statist intellectual, but simply because he was an opportunist capitalizing on the public's demand for "action."

Yet the depression that FDR inherited was still very much with us after two terms in the White House. He zigged and zagged from one Rube Goldberg policy contraption to the next. His elitist brain trusters covered for his failures and cooked up new schemes, in what Flynn called "the dance of the crackpots."

Flynn's critique of the Mussolini-inspired New Deal's two main hallmarks—the National Recovery Administration (NRA) and the Agricultural Adjustment Act (AAA)—remains one of the most devastating ever penned. The "crazy antics" of the NRA put a New York tailor behind bars for pressing a suit of clothes for 35 instead of 40 cents. With the AAA, "we had men burning oats when we were importing oats from abroad on a huge scale, killing pigs while increasing our imports of lard, cutting corn production and importing 30 million bushels of corn from abroad."

Flynn's view of FDR's coterie of planners was right on target, each "a kind of little man who will tell you that he can't hit a nail straight with a hammer, but who loves to spread a big country like the United States out before him on top of a table, pull up a chair and sit down to rearrange the whole thing to suit his heart's content."

Flynn leaves the reader with a sense of disgust that the liberties and the pocketbooks of a nation were placed in the hands of so beguiling a schemer as Franklin Delano Roosevelt. Not even America's entry into World War II was without its shameful lies and prevarications from an administration whose one consistency was to place its own preservation above the long-term welfare of the nation.

Given the ongoing deification of FDR (there's even been a rumor that he'll be *Time* magazine's Man of the Century), John T. Flynn's *The Roosevelt Myth* is as relevant and necessary today as it was a half-century ago. Americans who prefer their history not be twisted to serve statist ends or sanitized by the politically correct should be sure to stock their libraries with this classic. No one who reads it with an open mind will ever think of Franklin Delano Roosevelt the same way again. □

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Government

A World Without the FDA (Plus a Contest!)

Back in 1980 I had the good fortune to spend a summer in Santiago, Chile. My woeful high-school French produced an even more woeful Spanish, but I was able to travel about that beautiful country with wonderful people.

In the middle of my stay I developed a fearful cold and wandered into what looked like a drugstore in search of comfort for my ailing throat, nose, and head. I picked up a bottle of this, a bottle of that, and tried to puzzle out their purposes. I quickly realized that my command of Spanish, while adequate for getting around on the bus or in the grocery, was a major handicap when trying to figure out the ingredients and expected impact of any of the products lining the shelves.

As I stood there peering at labels, it occurred to me that there probably was not a Chilean equivalent of the Food and Drug Administration. I remembered the time my father had surgery overseas. His post-operative condition was an emotional roller coaster: he found out later that he had been given cocaine as an anesthetic.

My problem went beyond my language deficiency: I was about to take on more risk than I was accustomed to in the United States. After years in the risk-free world of the American pharmacy, I was uneducated and unprepared for the choices on the shelves before me. I decided to endure my ailments drug-free.

My ignorance was the rational result of growing up in a world where the drugs that have any impact are only available by prescription and the ones available over the counter are about as dangerous as the candy in the next aisle. But if there were no FDA and if any drug were available over the counter, my incentives to become educated would change.

Voluntary Testing

The world would change in all kinds of interesting ways. Let's try to imagine what that world might look like. No FDA. No prescriptions. Any drug could be sold over the counter. And for simplicity, when I speak of drugs I mean purely medicinal drugs, even though my father's experience might make that a tough line to draw in practice.

Would drug companies test their drugs if tests were voluntary? I don't think drug companies' profits would be enhanced if their customers died from using their products. They would test their drugs. Would they test them as thoroughly as they are required to do now by the FDA? I doubt it.

Drugs would be riskier. Is that good or bad? We tend to think of drugs as safe or unsafe. But no drug is completely safe. The only way to avoid the side effects of drugs is not to take them. And most of us understand that as long as the risk is small enough and the benefits

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large enough, putting foreign substances into our bodies is a good idea.

What is more difficult to accept is the possibility that a drug can be "too safe." Under current drug regulations, it takes years of testing to get FDA approval. There is no free lunch: making drugs as safe as the FDA requires has costs.

Some worthwhile drugs for uncommon diseases never make it to market because the costs of proving their safety and effectiveness aren't worth it. Other drugs are worth it, but while waiting for FDA approval, people are dying or suffering. Finally, there are risky drugs the FDA rejects but that a patient might be willing to take a chance on. Without the FDA, there would be a lot more choice in the marketplace.

And with choice comes a lot more risk. That increase in risk would encourage consumers to become more educated. You could insulate yourself from that risk by using your doctor as you do now: as the gatekeeper to the dangerous world of drugs. But we would have the freedom to have a different relationship with our doctors. Many of us would take greater responsibility for our decisions by using a doctor as a resource rather than as a surrogate parent.

Most of us will not want to master the effects of drugs, even with a doctor's help, so we will also have a demand for other sources of good information. With the government out of the business of risk control, there will be a large profit opportunity to provide reliable information on drugs and how they work. The Internet is one way to provide that information.

Perhaps a private nongovernmental version of the FDA would come into existence akin to Underwriters Laboratory or *Consumer Reports*, certifying drugs as having a particular effect on an ailment or not having particular side effects. Such testing would be expensive, but drug manufacturers and consumers might be willing to pay a premium for drugs that had been extensively tested and certified independently. There might be different organizations with different standards of effectiveness or safety certifying the effects of drugs.

All of the above is mere speculation, an attempt to fathom how the market might respond to the intense demand for information in a riskier world. I can only begin to guess how the market might solve that problem.

All I know for certain is that a world without the FDA and without prescriptions would have more personal responsibility and more choice.

I also know for certain that there would be tragic outcomes as well. Without the protection of the government, some people would be taken advantage of by unscrupulous drug manufacturers and deceptive marketing. Some people would hurt themselves taking the wrong drugs or neglecting various drug interactions.

But others would be saved by the wider and earlier availability of life-saving drugs.

Would a world without an FDA and prescriptions be a better world? The answer depends on how many lives would be lost from mistakes and how many lives would be saved by the wider and earlier availability of drugs. It would also depend on the value you place on putting responsibility in our own hands rather than having the government take responsibility for us.

Here is my challenge to you, the thoughtful reader. I would like to hear from you as to which world you prefer: the current world or the one I have sketched above. What are the reasons for your choice? As a final challenge, I'd like to hear from you as to how you think the market would handle the informational challenges of a world without the FDA. The best submissions will be mentioned in my next column and the writer of the most interesting response will be given a choice of books from the FEE Bookstore. Send them to me at FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533, or e-mail freeman@fee.org, with "FDA Contest" in the subject line. □

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